



United States Postal Service
**Comprehensive
Statement on
Postal Operations
2008**

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YEAR REFERENCES

All references to a specific year or “the year” refer to the Postal Service fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

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Chapter 1 **Our Mission**

The Postal Service's mission is to provide the nation with reliable, affordable, universal mail service. The basic functions of the Postal Service were established in 39 U.S.C. § 101(a): ". . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It [the Postal Service] shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities." The Postal Service delivers to more than 149 million addresses six days a week, and picks up pre-paid letters and packages at the time of delivery. It provides mailing and shipping services through more than 36,000 retail outlets and through its Web site, usps.com.

Who We Are

Document Purpose

For stakeholders interested in the Postal Service, the annual *Comprehensive Statement on Postal Operations* and the *Annual Report* describe Postal Service actions and results. The *Comprehensive Statement* is a broad summary of customer, employee, and operations-focused developments from the past fiscal year. The *Annual Report* focuses on Postal Service finances and financial results. A third document, *Vision 2013*, is the Postal Service's five-year strategic plan for 2009-2013. All three documents are available at usps.com/about.

The Postal Service has filed the annual *Comprehensive Statement* since 1976 in accordance with 39 U.S.C. 2401(e), which prescribes its contents. Chapter 1 addresses the postal mission and legislative developments. Chapter 2 focuses on customers and services. Chapter 3 discusses the postal workforce and employee-related programs. Chapter 4 describes operations. Chapter 5 contains the Postal Service's performance report for 2008 and its plan for 2009, as required by the Government Performance and Results Act. All references to years, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30.

The Year in Review

2008 was a difficult year for both the U.S. economy and the Postal Service. Total mail volume was 202.7 billion pieces, a decline of 9.5 billion pieces, or 4.5 percent. The rate of decline accelerated throughout 2008 as the economy weakened. This result is largely a symptom of the ailing economy. The hard-hit financial sector of the economy led declines not just in the stock market, but in mail volume as well. Economic difficulties also contributed to reduced volumes from other mailers, including catalogue retailers, printing and publishing businesses, and the services sector.

First-Class Mail volume decreased by 4.6 billion pieces, or 4.8 percent. The largest volume decline occurred in single-piece First-Class letters, part of a long-term trend that reflects the impact on mail by Internet bill payment and other electronic alternatives. Presorted First-Class Mail also decreased, which is a reflection of the general curtailment of advertising spending. Reduced advertising

primarily affected Standard Mail which experienced a volume decline of 4.4 billion pieces, or 4.3 percent. Because it is composed primarily of advertising, Standard Mail is especially sensitive to economic contractions.

As mail volume fell throughout the year, the Postal Service initiated a number of efforts to reduce workhours. Compared with 2007, approximately 50 million fewer workhours were used this year, the equivalent of 25,000 work years. These efforts partially offset rising costs for fuel, compensation, and benefits, and helped the Postal Service reduce its total costs by \$2.2 billion.



Postal Service delivery performance continued to improve in 2008. Despite declining mail volumes and revenues, it achieved best-ever performance for all three categories of First-Class Mail. First-Class Mail with an overnight commitment was delivered 97 percent on-time. First-Class Mail with a 2-day commitment was delivered 94 percent on-time, and mail with a 3-day commitment, 93 percent on-time. Performance is measured independently by IBM Global Business Services. Other service categories showed continued improvement as well.

This year the Postal Service updated its service standards for market dominant mail classes, a step taken after extensive customer outreach and consultation with the Postal Regulatory Commission (PRC). Performance to the standards will primarily be measured using a hybrid system that combines internal scans with external data independently collected and verified by IBM Global Business Services. Reporting is set to begin in January 2009.

All operations continued to benefit from increased data on mail flows which, combined with new systems and management tools, are highlighting opportunities to improve service consistency and efficiency. Process standardization is helping integrate data across functions and plants, reducing variability, and providing more consistent and predicable end-to-end service performance. Use of Intelligent Mail® barcodes is being piloted by a number of customers, who are beginning to gain a wealth of new information about the status of their mail in transit.

The Postal Service began to exercise its new flexibility under the Postal Act of 2006 to introduce new products and adapt prices more quickly to customer needs and market conditions. Organizational changes brought together product development, product management, and commercial sales in a new Mailing and

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Shipping Services division. A revamped Customer Relations division now manages key consumer and business customer relationships and pricing. Customers can now take advantage of commercial volume pricing, online price discounts, and other price incentives for Priority Mail, Express Mail, ground, and international parcels.

A redesign of *usps.com* — named one of the top four federal Web sites by the Brookings Institution — makes it easier than ever to find the right solution for any mailing or shipping need. Customers can go online to use Click-N-Ship and PC postage, find and pay for a Post Office Box, schedule a package pickup, including parcels being returned, and apply for a permit for Business Reply Mail.

In this election year, “no excuse” voting by mail was more popular than ever as the Postal Service provided reliable service and delivery for time-sensitive ballot mail. Currently 28 states allow voting by mail, with more planning to pass similar legislation. Nearly half of California’s registered voters cast their ballots through the mail, and Oregon votes entirely by mail. The Postal Service provided detailed information for state and county election officials online at *usps.com/electionmail*, and a comprehensive training program, *Election Mail: Tips, Tools, and Tactics for Successful Mailing*, was designed to be presented at state conferences, association conferences, or Postal Customer Council meetings. Topics include address quality, software tools to reduce undeliverable mail, mailpiece design, tracking, and centralized payment options. The Postal Service also worked closely with the Department of Defense to deliver absentee ballots to members of the armed forces serving abroad.

Field testing continued on the Flats Sequencing System (FSS) — equipment that automatically sorts and sequences large envelopes, magazines, catalogs, and circulars into the order that they are delivered by carriers, improving efficiency. FSS technology will dramatically reduce manual handling of flat mail, resulting in more consistent service and lower processing and other costs. Full deployment is set to start in late 2009 after testing is completed.

The Postal Service established a new office of Sustainability to coordinate multiple programs that will ensure the Postal Service remains an environmental leader. The Postal Service remains the nation’s only shipping company to achieve Cradle to Cradle certification for many of its packaging materials. This certification, which means more than 15,000 metric tons of carbon emissions are prevented annually, has been expanded to include product display materials in Post Offices. The Postal Service continues to lead the way in energy conservation and recycling, and continues to introduce services to help its customers go green. Customers can use *usps.com* and their postal carriers to deliver stamps and free packaging to their doors, and to collect their outgoing mail and packages, helping them save gas, money, and time.

For the fourth year in a row, the Postal Service was rated as the government agency most trusted to safeguard personal information, according to a national privacy trust study by the Ponemon Institute.

And, according to an Associated Press-Ipsos poll, 89 percent of survey participants had a positive view of the Postal Service, highest among a dozen federal agencies. It is not surprising that Americans hold the Postal Service in high regard. Every year dedicated employees deliver extraordinary service in difficult circumstances. In the aftermath of wildfires in the West and tornadoes in the South, after hurricanes pounded the Gulf Coast and moved up the Eastern seaboard, employees rose to the challenge and kept the mail moving. Every day, in every community, employees provide assistance to ill and injured customers in the course of performing their duties.

This year the Postal Service issued *Vision 2013*, its new five-year strategic plan for 2009-2013. *Vision 2013* builds upon the successes of the Postal Service’s *Strategic Transformation Plan*, which helped guide multiple improvements in service, efficiency, and workplace conditions. With *Vision 2013*, the Postal Service commits to continuing this progress. It acknowledges that customers are hard-pressed by current economic conditions and that service improvements and cost reductions remain crucial. *Vision 2013* also offers a broad perspective of what it will take to succeed in the future, and describes a number of strategies to keep mail relevant and grow by adapting to changing customer needs.

Governance

Postal Accountability and Enhancement Act Compliance

On December 20, 2006, the President signed the Postal Act of 2006. The law represents the most sweeping legislative change to the postal system since the Postal Reorganization Act of 1970. It modernized price regulation and service standards, increased the authority of the PRC, required a variety of reports and evaluations, required compliance with portions of the Sarbanes-Oxley Act, and accelerated the funding of Postal Service retiree health benefits. Additionally, it ended the previously mandated break-even business model and allows for profit-or-loss, encouraging retained earnings to be reinvested into the business.

The law divided postal products into market dominant and competitive categories with increased pricing flexibility for both. The market dominant category — referred to as mailing services in this document — includes First-Class Mail, Periodicals, Standard Mail, Special Services, and Package Services (other than Bulk Parcel Post), and Single-Piece International Mail. The law limits price



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increases for mailing services, at the class level, to the annual rate of inflation as measured by the Consumer Price Index. The competitive category includes shipping services — Priority Mail (domestic and international), Express Mail (domestic and international), domestic Bulk Parcel Post and Bulk International Mail. There is no price cap on shipping services price increases. However, the law does require that shipping services cover their attributable costs, are not subsidized by mailing services, and make an appropriate contribution to institutional costs.

Regarding service, the Postal Service has addressed three important requirements in the law. First, it evaluated existing service standards in the context of current network capabilities and established modern service standards for mailing services, which were published in the *Federal Register* on December 19, 2007. Second, a proposal for the establishment and implementation of objective measurement systems was provided to the PRC in June 2008. Third, also in June 2008, the Postal Service submitted its Network Plan to Congress, including the vision for rationalizing the network to improve efficiency and meet the new service standards.

Separate accounting is required for mailing services and shipping services. A new Competitive Products Fund, apart from the existing Postal Service Fund, is established at the U.S. Department of Treasury. An assumed income tax will apply to profits from the Competitive Products Fund, with tax proceeds transferred to the Postal Service Fund to help defray costs for meeting the universal service obligation. In December 2007, the Department of Treasury issued recommendations to the PRC on the accounting process. Also in December, the Federal Trade Commission (FTC) reported on the application of federal and state laws to shipping services and how they differ between the Postal Service and private companies. The FTC concluded that the Postal Service's "unique legal status likely provides it with a net competitive disadvantage versus private carriers."

The PRC established a modern ratemaking process in November 2007 and conducted a review of the Postal Service filing on prices and services in 2008. The Postal Service implemented new prices in May 2008 for the first time under the new ratemaking process.

The law also requires the PRC to report to Congress and the President on the universal service obligation (USO) and monopoly status of the Postal Service. As part of this process, the Postal Service launched a number of initiatives in 2008 to research and analyze aspects of the USO and monopoly and understand the potential ramifications of any changes. While other carriers might offer *delivery* on a universal basis, the Postal Service has a universal service *obligation*, which encompasses multiple dimensions: geographic scope, range of products, access to services and facilities, delivery frequency, affordable and uniform pricing, service quality, and security of the mail. The PRC also held a public inquiry to solicit comments from a variety of stakeholders. Most comments supported preserving the USO as well as the two components

of the monopoly (the Private Express Statutes and the mailbox access rule) to ensure funding for the USO. On October 15, 2008, the Postal Service issued its report to the PRC, putting forth the position that the USO and monopoly are inextricably linked, should be preserved, and that additional flexibility will be needed to maintain affordable universal service, especially during a tightening financial environment.

Another key aspect of the law entails funding for Postal Service retirement and health benefits. Each year over the next decade, the Postal Service must pay between \$5.4 billion and \$5.8 billion into the new Postal Service Retiree Health Benefits Fund. Without this pre-payment requirement, the Postal Service's operating net income would have been \$2.8 billion.

Board of Governors

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly-held corporation. The Board includes nine Governors appointed by the President of the United States with the advice and consent of the Senate. The other two members are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at the pleasure of the Board, without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General. The Chairman and Vice Chairman are elected at the first meeting of each calendar year. The Board directs and establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with title 39 of the United States Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of re-delegation, as it deems desirable.

The Postal Service fiscal year 2008 began on October 1, 2007, and ended September 30, 2008. The full Board held meetings each month except in October, February, June and August. Meetings usually consist of open and closed sessions in accordance with the provisions of the Government in the Sunshine Act. Altogether, the full Board met on 15 days. Meetings were held in Washington, D.C., and by teleconference. In addition to full Board meetings, committee meetings were held throughout the year, some not coincident to the full Board meeting dates. The Board had five committees: Audit and Finance, Compensation and Management Resources, Governance and Strategic Planning, Government Relations and Regulatory, and Ad-Hoc Operations. The committees met to consider matters within their areas of responsibility and referred items to the full Board for consideration.

In November 2007, the Board approved the audited 2007 financial statements and the Governors approved using the new regulations issued by the Postal Regulatory Commission on October 29, 2007, for any future price adjustments.

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At the December meeting, the Board approved the *2007 Annual Report* and the *2007 Comprehensive Statement on Postal Operations including the Government Performance and Results Act* reporting requirements. The Board also approved the final 2009 appropriation request to Congress. The Governors approved a negotiated service agreement with Bank of America.

In January 2008, Alan C. Kessler was elected Chairman of the Board, and Carolyn Lewis Gallagher was elected Vice Chairman. The Board approved a resolution on capital funding, and three capital funding requests for facilities: Providence, RI, Processing and Distribution Center Expansion; West Sacramento, CA, Processing and Distribution Center Expansion; and the Perris, CA, Delivery Distribution Center. The Board also approved a schedule for Mailing Services price changes. The Governors approved new rates of postage, fees, and product descriptions for Market Dominant categories of mail (mailing services) to become effective May 12, 2008.

On March 4, the Board held a meeting by teleconference. The Governors established changes in Rates and Classes of General Applicability for Competitive Products (shipping services) setting May 12, 2008, as the effective date for the changes.

In April, the Board held a regular meeting and approved three capital funding requests: Advanced Facer Cancellor System (AFCS) Model 200; Integrated Data System-National Directory Support System (IDS-NDSS) Replacement/Consolidation; and the Bethpage, NY, Logistics and Distribution Center. The Governors approved a pricing proposal for Inbound Express Mail International and also adopted two resolutions: the commendation of Governor James C. Miller III, and the appointment of the past Board Chairman as Chairman Pro Tempore. The Board approved charters for five committees and the Chairman appointed members to the committees.

In May, the Governors approved the pricing formula and corresponding mail classification changes for Inbound Direct Entry Services for foreign postal administrations and Global Expedited Package Services contracts. The Board approved capital funding requests for two facility projects: the Richmond, VA, Processing and Distribution Center replacement; and the New York, NY, International Service Center/John F. Kennedy Air Mail Center lease renewal.



In July, the Board approved an implementation date for the Life Line Screening negotiated service agreement of August 1, 2008.

In September, the Board approved the calendar year

2009 schedule for the Board, the preliminary fiscal year 2010 Appropriation Request, and two capital funding requests: the Distribution Quality Improvement Program, and the San Francisco, CA, Townsend Carrier Annex. The Governors approved the fiscal year 2009 budget for the Office of the Governors. The Board also approved the *Vision 2013 — Five-Year Strategic Plan* and amendments to the Board Bylaws.

During the course of fiscal year 2008, the Governors exercised their authority under the Postal Act of 2006 and approved by paper ballot seven contracts with individual customers for prices for shipping services products. These contracts were filed under seal with the PRC for its review. The contracts contain commercially sensitive information and, therefore, are not identified here.

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Who They Are

Customers can be grouped into four major categories: large-volume business mailers; business partners and service providers; small and medium-size business mailers; and households. Businesses of all types generated 86 percent of total mail volume in 2008. Compared to businesses, households represent a relatively small share of total mail sent. However, households *receive* two-thirds of all mail, and the attitudes and behavior of consumers greatly influence business mailing decisions. The Postal Service links businesses and households by providing a trusted, reliable means to send and receive bills, payments, statements, advertisements, publications, and merchandise.

Large-volume business mailers, numbering about 15,000 national and regional mailers, use mail to communicate with their customers and vendors for billing, receiving remittances, advertising products and services, fulfilling merchandise orders, and sending out newspapers, magazines, trade journals, and other national publications. The Postal Service maintains sales, operational, and service-oriented relationships with these complex business mailers on a nationwide level and on a daily basis.

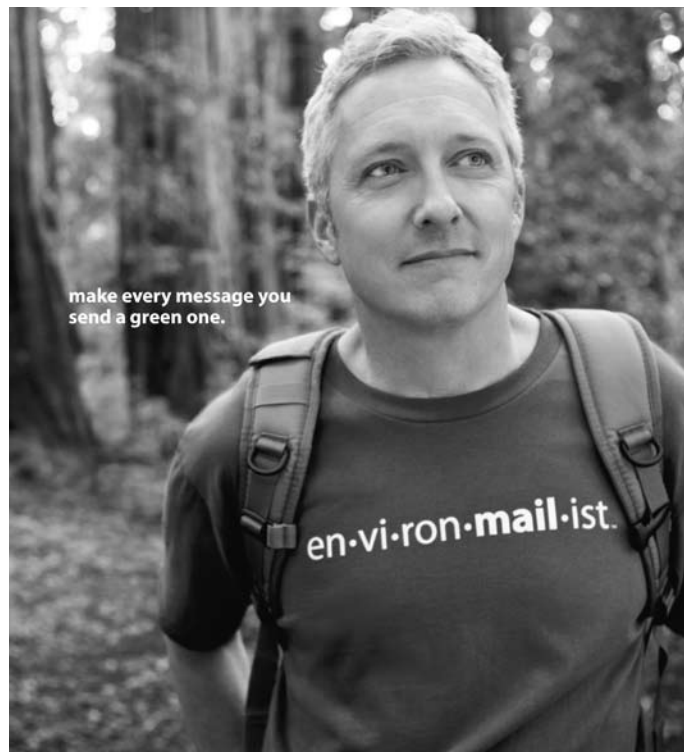
Business partners add value to mail creation in a variety of ways. There are about 3,800 managed business partner accounts helping their clients use mail to meet corporate objectives in a variety of ways. Some business partners specialize in integrated marketing strategies, direct mail copy and graphics, mailing list selection and management, or printing and preparation for entry. Some consolidate mailings for other customers and provide other mail-related services, such as presortation and transportation, filling a niche in the mailing industry by offering end-users postage discounts through workshare opportunities.

Small and medium-size businesses, generally local or regional and focused on specific market segments, use mail to communicate with their customers and vendors for billing, receiving remittances, advertising products and services, fulfilling merchandise orders, and distributing local or regional publications. The Postal Service has dedicated sales, operational, and service-oriented relationships with many of these mailers through local postmasters, business development teams, and business mail entry units.

Households are the main receivers of correspondence, advertisements, news, bills, statements, and merchandise sent by businesses. This business-to-household mail flow is the heart of the \$1 trillion mailing industry. As senders of mail, households contribute roughly 15 percent of postal revenue. Households have very different product and access needs compared to the largest business mailers.

Customer Outreach

To generate interest in postal products and services, the Postal Service uses a variety of customer outreach programs, including industry events such as the annual National Postal Forum (NPF), and



The Postal Service launched an “Environmailism” print ad and direct mail campaign, which included a handbook on implementing greener mail practices.

ongoing industry discussion and collaboration with groups such as the Mailers’ Technical Advisory Committee, local Postal Customer Councils, and a number of other mailing industry groups. Advertising is used to raise awareness and increase use of products and services among all customer groups. Additionally, the Postal Service provides information and obtains feedback from customers through online channels like *usps.com*, customer satisfaction surveys, and the personal contact of employees working in Post Offices and delivering mail.

Mailing Industry Dialog

NATIONAL POSTAL FORUM

The annual National Postal Forum (NPF) is the largest mailing industry tradeshow. It focuses on education and new technology, and offers an opportunity to build relationships and effectively showcase postal products in an ever-changing marketplace. More than 6,000 customers and exhibitors attended the May NPF in Anaheim, CA. The high attendance reflects the continuing importance of mail and the industry’s engagement on critical strategic issues, such as the Flats Sequencing System (FSS), sustainability, and the adoption of Intelligent Mail®, a new process that uniquely identifies each mailpiece; it is the core of many beneficial changes to mail preparation and processing. Postal executives and industry leaders led discussions and symposiums on customer acquisition and retention, global business, and package and shipping solutions.

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The event included 140 workshops, 13 business/professional certificate programs, and the largest industry exhibit hall ever, where 161 companies exhibited the latest in mailing supplies, services, software, automation equipment, and mailing systems.

In the keynote address, the PMG highlighted the Postal Service's environmental accomplishments: Express Mail and Priority Mail boxes are still the only packaging with Cradle to Cradle certification. Today's mail contains more recycled material and more mail is being recycled than ever before. The Postal Service is in a unique position to reshape the nation's refueling infrastructure with its fleet of alternate fuel vehicles. Attendees were reminded that postal pickup and delivery of merchandise save unnecessary car trips. Actor and environmental advocate Ed Begley, Jr., spoke to attendees and saluted postal efforts to make the mail "greener."

MAILERS' TECHNICAL ADVISORY COMMITTEE

The Mailers' Technical Advisory Committee (MTAC), composed of the major mailing associations and organizations working with the Postal Service to enhance the value of mail, achieved major progress during 2008. MTAC workgroups focus on issues important to both the industry and Postal Service, including establishing service standards, improving address quality, facilitating successful deployment of FSS, and implementation of Intelligent Mail®. In recognition of their significant contributions to the mailing industry, MTAC representatives received the prestigious Partnership for Progress award at the May National Postal Forum.

POSTAL CUSTOMER COUNCILS

Postal Customer Councils (PCCs) enhance working relationships with local businesses and keep customers updated on the latest postal products and developments. More than 100,000 members belong to 200 local PCCs across the country. *PCC Insider*, a monthly eNewsletter, provides the latest information on products and services, technology advances, and pricing and classification. Readers learn about developments affecting mailing operations and programs that meet their business needs. Members are also provided information from MTAC general session presentations and workgroups through links to the MTAC and National PCC Web sites.

PCCs find new ways to help new and existing customers use mail. The PCC Mail Service Provider (MSP) program database contains 181 national and locally-based companies that provide assistance with mailpiece design, obtaining mailing lists, printing, mailing support, supplies, and equipment. Businesses can search for local MSPs by clicking on the Find Mail Service Providers link on usps.com/pcc.

This year National PCC Day took place on September 17, 2008. The St. Louis, New York, and Bay Valley California PCCs hosted more than 14,000 members, viewing the broadcast from more than 150 locations around the country. Postmaster General Jack Potter was the keynote speaker at the event, which featured workshops

on shipping services and Intelligent Mail®. A new tool for sharing information and best practices among PCC members, *2blogpcc.com*, was announced during the broadcast.

In March, the Postal Service and PCCs co-sponsored four symposia to help prepare mailers for new Intelligent Mail requirements set to be implemented in 2009. About 1,600 attendees participated in events in Atlanta, Chicago, Las Vegas, and New York. Customers already using Intelligent Mail related their experiences and how it is adding value to their mail and their businesses.

OTHER POINTS OF CONTACT

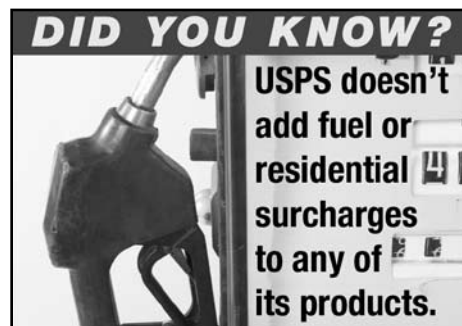
Customer outreach is also performed through employee-based outreach programs like Business Connect, Customer Connect, and Rural Reach, which provide customers with information about how postal products and services can help them grow their businesses. Customers can also find information online at usps.com or from employees working in Post Offices or delivering mail.

Customer Support and Feedback

The Postal Service has taken steps to significantly improve each of the customer support programs during 2008 — strengthening Business Service Network teams, integrating and improving access to customer data, and expanding the support offered through Customer Call Centers. Additionally, the Customer Satisfaction Measurement tool for getting feedback from customers was enhanced to provide additional measures of service.

BUSINESS SERVICE NETWORK

The Business Service Network (BSN) is a dedicated, nationwide network that provides customer support to the largest business customers. The BSN is strategically positioned to impact customer satisfaction, revenue growth, and retention of this important customer segment, representing more than \$55 billion in revenue. As a critical link between mailers and internal postal operations, the BSN resolves service inquiries. With a strong commitment to service, BSN raised its customer satisfaction score by 5.3 percent.



CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship Management provides a comprehensive 360-degree view of business customers' interaction with the Postal Service, across all channels and touch points. Notable this year was the introduction of the *Customer Data Mart*, an integrated

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customer database designed to help achieve the goals of improved customer service and revenue growth. The Customer Identification process integrated three additional applications to support the corporate-wide strategy of uniquely identifying customers across all business processes to improve customer data quality in Postal Service systems. New address matching processes implemented in Customer Registration provides a secure, single sign-on application for customers to access Postal Service products online at *usps.com*.

CORPORATE CUSTOMER CONTACT

Corporate Customer Contact (CCC) provides convenient customer access to a wide array of services through a network of toll-free telephone numbers. CCC handles queries on ZIP Codes, prices, passports, and Post Office hours and locations. It helps customers submit change of address notices and provides support to customers tracking domestic and international packages. CCC accepts orders for stamp products through 800-STAMP-24 and coordinates responses to the Contact Us page on *usps.com*. CCC also supports *My Post Office*, an intranet application that enables Post Offices to manage daily processes. It communicates corporate alerts, customer service issues, and customer requests for pickups, holds, and redeliveries.

In a pilot project conducted at the Detroit District since March 2007, employees who have been injured on duty help staff the Postal Service's call center, handling customer inquiries on ZIP Codes, domestic postage prices, passports, and hold mail and redelivery requests. The project provides productive work to employees who are unable to perform their regular duty assignment and who have reached maximum medical improvement.

CUSTOMER SATISFACTION MEASUREMENT

Customer Satisfaction Measurement (CSM) is conducted independently through surveys performed by the Gallup Organization on behalf of the Postal Service. Survey question ratings and feedback provide an ongoing assessment of customer experience with the Postal Service across a range of interactions. CSM reports customers' perception of the quality of their mail delivery, the service they received at Post Offices and other postal outlets, and their experiences with other postal contacts, including phone or online assistance. The Postal Act of 2006 required measurement of customer satisfaction with selected mailing services. During 2008, measures of residential and business customer satisfaction with mailing services were developed and implemented through the CSM survey process.

Because customer needs and expectations vary depending on the type of business they conduct with the Postal Service, CSM reports satisfaction by customer category. CSM-Business surveys three business customer segments: National Accounts (largest business mailers), Premier Accounts (medium-size business mailers), and Preferred Accounts (small business mailers). CSM-Residential surveys household customers.

A total of about 987,000 residential and 371,000 business responses to the CSM surveys were received during 2008. Responses to all CSM surveys are voluntary and confidential, with survey response rates for residential customers of 21 percent, and for small businesses about 13 percent. Survey results are verified by and compared to other measurements. The data help area, district, and local managers determine how well they are doing and where improvements will most benefit customers.

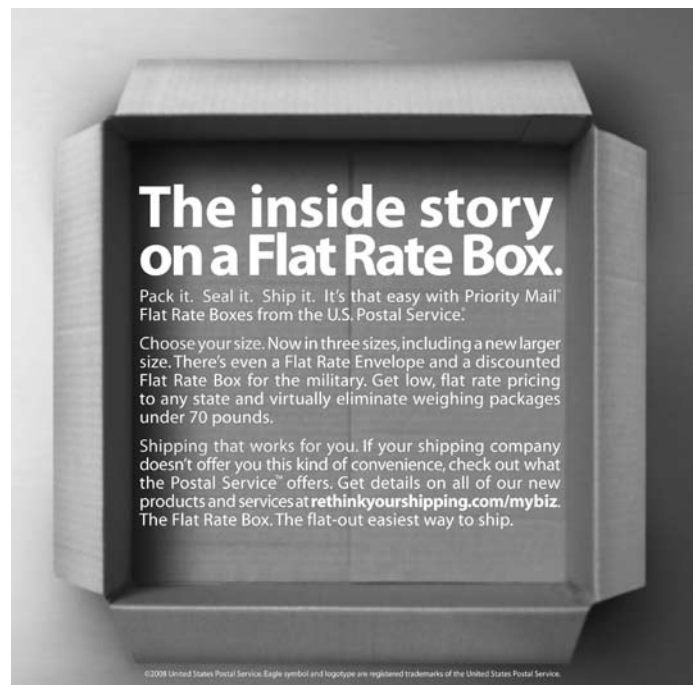
Residential customer satisfaction ratings of 92 percent were maintained during the first three quarters and increased to 93 percent in the fourth quarter. The Postal Service continues to focus on key drivers of customer satisfaction to identify opportunities for improvement.

Outreach

ADVERTISING AND PROMOTION

The Postal Service used multiple advertising tools to boost consumer and business awareness of its products and services. Direct mailings, broadcast commercials, print advertising in trade journals, and mailing industry publications showed why companies should include direct mail in any integrated marketing program. The message emphasized the unique value of mail and how it complements other media.

Promotions launched in 2008 focused on how to develop targeted mailings that lead to higher returns on investment. Variable data



"The inside story on a Flat Rate Box" is one of the ads that appeared in Forbes, small business magazines such as Entrepreneur and in major daily newspapers, including USA Today.

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printing was the theme of a large business personalization campaign called “DM Deli.” The campaign showed ways to make advertising mailings successful by tailoring them to specific customer needs and interests.

Advertising during the year also emphasized the convenience of online services at *usps.com* and free package pickup and Click-N-Ship. The holiday campaign communicated similar messages and included the *Holiday Mailing and Shipping Guide* delivered to every household. To assist non-English-speaking customers, the Postal Service supplied product translation fact sheets in nine languages at many Post Offices.

For small businesses, the Postal Service developed promotional kits to help postmasters identify how to build new business by matching their customers’ needs with available products. Support was also provided for city carriers under the Customer Connect program, and for rural carriers under the Rural Reach program.

Support materials were distributed to promote the new Postal Service “green” Web site that emphasizes a commitment to environmental stewardship and informs customers about ways to make mail environmentally friendly. In response to consumer concerns about identity theft, the Postal Service mailed information to every household that dispelled the myth that mail is a significant source of identity theft, and provided consumers with practical ways to treat information in their mail.

CUSTOMER DEVELOPMENT

The Postal Service has achieved great success with programs that provide an avenue for employees to identify and develop new business opportunities. Employees participating in the Business Connect, Carrier Connect, and Rural Reach programs have brought significant numbers of new customers to the Postal Service. In September 2008, mailhandlers joined the effort with the “Submit a Lead” program.

Business Connect encourages postmasters, station managers, and branch managers to sell postal products and services to small and medium-size businesses. Postmasters have always been a vital part of the communities they serve. Business Connect builds on this role by providing them with the tools and training to identify new customers and revenue prospects, to make professional presentations about products and services, and to establish themselves with these customers as the primary local resource for business growth and success.

Customer Connect asks city carriers to help identify small businesses that could benefit by increasing their use of postal services. Carrier referrals are provided to Business Development Teams who then meet with the customer to understand business and mailing needs and recommend the right mix of products and services. Customer Connect continues to increase revenue and participation.



Attendees at an eBay Day seminar learn how services such as Click-N-Ship and free expedited packaging can help their online business grow.

In April rural carriers became a part of a lead generation program, Rural Reach. This lead-generation program follows the same concept as Customer Connect — rural carriers identify potential businesses on their routes that can benefit from learning more about postal products and services. As part of Rural Reach, rural carriers submit leads and share product information with key customers.

New Business Development Teams (BDTs) were launched in each district. BDTs are responsible for managing the employee generated leads from the Business Connect, Customer Connect, Rural Reach, and Submit a Lead programs, as well as selling to the small to mid-sized customer base.

SALES

During 2008, the Postal Service worked with more than 25,000 commercial accounts to develop appropriate mailing and shipping solutions around the core business needs of those customers. Over 85,000 presentations were made to key direct mail and package decision makers in these accounts. These efforts helped contribute to \$56 billion in commercial sales revenue in 2008.

While account managers retained responsibility for everyday support of their customer accounts, two new sales groups were created to provide assistance with major direct mail and package business opportunities. In addition to these specialty sales groups, a Business Partner Channel sales team was developed to build revenue by collaborating with third-party service providers that can furnish mailers with a full range of options to meet individual needs.

Direct mail promotions included building on and expanding *Branding Through the Mailbox*, an initiative that helps businesses integrate mail with other advertising and promotional media. As an example, postcards with source codes or Web addresses are a very effective way for marketers to quantify the success of any media campaign. To complement this initiative further, the Postal Service promoted variable data printing techniques that make direct mail more personal

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and improve response rates. In addition, a major “green mail” campaign was launched to encourage environmentally friendly direct mail techniques. From a cost perspective, mailers were also shown how to improve their return on investment by reducing undeliverable-as-addressed mail and improving address quality. *The Optimizer*, an electronic tool that creates postage and cost calculations for mailings based on a set of variable data inputs, was updated to help mailers see the total costs for various combinations of mailings.

Package promotions were supported by a revised program with new “Rethink Your Shipping” television and print materials that featured new pricing incentives and noted that postal shipping services contain no surcharges. The Postal Service effectively promoted expedited shipping solutions for holiday shipping by emphasizing the value and convenience of extra delivery days during the holidays that include weekend delivery.

The Postal Service also established a dedicated sales team to handle a growing international mail market. This team provides customers with up-to-date support on all aspects of international mail and collaborates with these customers to help them expand their overseas business through mail.

Privacy and Security

For the fourth year in a row, consumers ranked the Postal Service as the most trusted government agency for privacy, according to an annual survey by the Ponemon Institute. Over 86 percent of those surveyed ranked the Postal Service first among federal agencies when it comes to protecting their personal information. The Postal Service’s score also increased for the fourth consecutive year.

The Postal Service continued to upgrade existing privacy and data security protections by updating information security requirements and data management procedures. Mandatory privacy training increased employee awareness of privacy policies and employee responsibilities for protecting sensitive information. IT security upgrades included improved system access controls, full-disk encryption for laptops and applications containing sensitive data, and increased security for automatic and business-to-business file transfers.

The Postal Service continued to take a national leadership role in protecting consumers and fighting fraud. The marketing industry recognized the Postal Inspection Service’s 2SMRT 4U campaign with a Silver Effie award for encouraging teens to practice safe online habits. The campaign was created with the help of the National Center



for Missing & Exploited Children, *Teen Vogue*, and the advertising agency Campbell-Ewald.

During National Consumer Protection Week, the Postal Service joined with the Federal Trade Commission (FTC) to warn Americans about fraudulent financial schemes and identity theft. The Postal Service, financial institutions, and consumer advocacy groups, formed the Alliance for Consumer Fraud Awareness, to combat check scams through the mail. The Postal Service produced a comprehensive brochure on identity theft, providing consumers with essential tips for safeguarding their identity and recommendations for what to do if they have been victimized. The brochure noted that according to a recent FTC study, when the source of the crime was known to the victim, only 2 percent of reported identity thefts were connected to stolen mail. The Postal Service also worked closely with law enforcement to promote use of the national Financial Crimes database to increase the effectiveness of prosecution of identity theft and identity fraud crimes.

In February 2008, every household in America received a letter from the Postmaster General providing advice for protecting against identity theft. The FTC’s comprehensive brochure, “Fighting Back Against Identity Theft,” was included in the mailing.

Products

Postal Service products are offered through a domestic network of more than 36,000 Post Offices, stations, branches, and contract postal units, and delivered to every address in the United States and worldwide through the networks of foreign postal administrations.

The Postal Act of 2006 divided postal products and services into two distinct categories — market dominant (referred to as mailing services) and competitive (referred to as shipping services). Different rules for each category allow the Postal Service to bring new products and services to market more quickly, with greater pricing flexibility. The Postal Act results in annual price changes for the mailing services products.

Price changes for mailing services require at least a 45-day notice, and the Postal Service has committed to providing a 90-day notice. Price changes on average for any class of mail within mailing services may not exceed the rate of inflation based on the Consumer Price Index for the previous 12 months. Price changes for shipping services require at least a 15-day notice for individual customer prices and a 30-day notice for market-wide prices for which the Postal Service has committed to providing a 60-day notice. Price changes for shipping services must produce sufficient revenue above a price floor that covers attributable costs and, for shipping services as a whole, an appropriate share of institutional costs.

Mailing Services

Mailing services represent about 89 percent of all revenue. These services include First-Class Mail, Periodicals, Standard Mail, single-

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piece Parcel Post, Bound Printed Matter, Media Mail, Library Mail, single-piece International Mail, and Special Services such as Delivery Confirmation, Certified Mail, and Post Office Box service. Mailing services price changes took effect May 12. Shape-based pricing was extended to First-Class Mail International. Implementation of the annual prices occurred smoothly, supported by online and print communication to the public and employees.

FIRST-CLASS MAIL

First-Class Mail includes business and personal correspondence, bills, invoices, remittances, financial statements, and advertising. Any matter eligible for mailing weighing up to 13 ounces may be mailed as First-Class Mail. Matter containing personal information, partially or wholly handwritten or typewritten matter, or bills or statements of account must be mailed as First-Class Mail, unless mailed as Express Mail or Priority Mail, or otherwise exempted by the Postal Service. First-Class Mail is sealed against postal inspection and cannot be opened except as authorized. First-Class Mail that is undeliverable-as-addressed (UAA) is entitled to be returned to the sender or forwarded without additional charge.

First-Class Mail revenue in 2008 was \$38.2 billion, with a volume of 91.7 billion pieces. First-Class Mail revenue decreased 0.6 percent and volume decreased 4.8 percent. The volume decline continued a downward trend starting in 2002. This volume decline can be attributed to electronic diversion of bills and statements, alternate payment methods, and the absence of sufficient new hardcopy applications.

The Postal Service continues to make important service improvements with First-Class Mail. On-time performance for the delivery of single-piece First-Class Mail climbed to record levels in 2008 for mail meeting overnight, 2-day, and 3-day service commitments.

Bills and statements still represent about half the volume of First-Class Mail that is presorted and, along with payments, represent nearly half of *total* First-Class Mail volume. The Postal Service has made significant service and process improvements to help stem the decline of this mail segment. According to the July 2008 biannual Phoenix-Hecht Survey, which measures the time in hours that it takes for remittance mail to travel from originating cities to 31 major remittance cities, “despite economic turbulence, there appears to be no short-term indicators of anything but continued strong performance for advantaged remittance mail.” Phoenix-Hecht, an independent research firm, has tracked remittance mail processing times at cities that handle major remittance volumes for more than 10 years. Technology, transportation, and mail processing enhancements have resulted in improvements in nationwide processing times by more than 8 hours since 1996.

The May 12 pricing changes for First-Class Mail improved relationships between various price categories and fostered a long-term pricing strategy that promotes automation, maintains price

relationships within automation letters, aligns additional ounce prices for all presorted letters, increases nonmachinable letters prices, and introduces shape-based pricing in First-Class Mail International.

Customers and the Postal Service continue to find new applications for First-Class Mail. One opportunity exists with Election Mail, including voter registration materials and absentee ballots. Twenty-eight states currently allow “no excuse” absentee voting. The Postal Service has worked closely with election officials nationwide to provide assistance with their efforts. Election Mail was promoted extensively through expanded outreach and new support materials, including an action plan, handbooks, Web pages, and a new container tag to flag trays and sacks containing ballots.

STANDARD MAIL

Standard Mail is bulk-entered mail that weighs less than 16 ounces. Any mailable matter may be sent as Standard Mail except matter required to be sent as First-Class Mail or copies of publications authorized to be entered at qualifying Periodicals rates. Standard Mail items typically include advertising letters, circulars, catalogs, fundraising appeals, and lightweight parcels. Standard Mail receives deferred handling. Regular Standard Mail generally includes targeted advertising or other messages based on recipient demographics such as income, previous purchases, or other characteristics. Enhanced Carrier Route Standard Mail, with pricing based on the geographic density of the mailing, is often used to target customers within specific neighborhoods or defined geographic locations.

Nonprofit Standard Mail prices are available to certain categories of qualified nonprofit organizations and to political committees and state or local voting registration officials, if those organizations, committees, or officials are authorized by the Postal Service.

Standard Mail revenue in 2008 was \$20.6 billion, with 99.1 billion pieces. Standard Mail revenue decreased 0.9 percent and volume decreased 4.3 percent. The revenue decline is due to reductions in advertising spending because of overall economic conditions, especially in the financial sector.

Direct mail has been a major contributor to overall revenue growth. Total Standard Mail revenue increased 13.6 percent between 2004 and 2008, with a 3.7 percent growth in volume for the same 5-year period. Since 2005, Standard Mail volume has exceeded First-Class Mail volume. This change has implications for Postal Service finances since it currently takes 2.5 pieces of Standard Mail on average to achieve the same contribution provided by one piece of First-Class Mail.

Long-term Standard Mail volume growth has been aided considerably by the increasing strength of direct marketing channels. Direct mail allows marketers to precisely target specific customers and accurately measure their return on investment while complementing multichannel efforts.

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Standard Mail pricing has been a catalyst to the emergence of a competitive direct mail industry. Various market developments have contributed to continued growth, including the Do Not Call Registry established in 2003, the Anti-Spam Act of 2003, and increased consumer expectations for targeted and personalized messaging. Direct mail, as a percentage of advertising spending, has seen consistent growth in recent years. Its share of total advertising expenditures is projected to be 21.6 percent in calendar year 2008.

The May 12 pricing changes for Standard Mail limited the increases for catalogs after a substantial increase the previous year. The May 12 changes also continued the shape-based pricing strategy for parcels, continued to recognize the market characteristics of higher density advertising, reduced the role of weight in price, and recognized the advent of the Flats Sequencing System.

PERIODICALS

Periodicals include magazines, newspapers, and other publications whose primary purpose is the transmission of information to an established list of subscribers or requesters. Publications must meet qualifying criteria established by law and specified in the *Domestic Mail Manual*. Periodicals mailed by qualifying nonprofit organizations and those mailed within their county of publication (primarily local newspapers) pay reduced prices.

Periodicals revenue in 2008 was \$2.3 billion, with a volume of 8.6 billion pieces. Total Periodicals revenue increased 4.9 percent and volume decreased 2.2 percent.

The May 12 pricing changes for Periodicals introduced a 5 percent discount off the total Outside-County postage for qualifying issues of Periodicals publications having a limited circulation.

Periodicals volume has continued to decline as other media channels have increased and publications frequencies have decreased. Businesses and consumers increasingly rely on the Internet as a substitute for hardcopy publication of news, information, and entertainment. To help maintain the affordability of this product, the Postal Service has focused pricing and product innovations on reducing the number of postal handlings and increasing the entry of Periodicals closer to destination.

PACKAGE SERVICES

Package Services is composed of Single-Piece Parcel Post, Bound Printed Matter, Media Mail, and Library Mail. These products can be used to send mailable items weighing up to 70 pounds (except Bound Printed Matter, which has a maximum weight limit of 15 pounds) not required to be sent as First-Class Mail, prepared as Customized Market Mail, or entered as Periodicals.

Single-piece Parcel Post may be used by any customer to mail parcels. Parcel Post is generally the most economical postal and nonpostal shipping service for parcels weighing one pound or more.

Bound Printed Matter, Media Mail, and Library Mail are content-restricted products. Bound Printed Matter may be used only for permanently bound printed materials such as heavy catalogs, books, and telephone directories. Media Mail and Library Mail may be used only for books, sound and video recordings, certain films and film catalogs, printed music, manuscripts, media, and other eligible items. Only qualified schools, colleges, libraries, and similar organizations may use Library Mail.

Package Service revenue in 2008 was \$1.8 billion, with 0.8 billion pieces. Package Services revenue increased 1.8 percent and volume decreased 7.4 percent. The May 12 pricing changes for Package Service products improved product profitability and enhanced shape-based Bound Printed Matter pricing to promote volume growth for flat-shaped catalogs.

SPECIAL SERVICES

The Postal Service offers a number of Special Services that can be purchased for a fee (or in the case of Delivery Confirmation, free for online service), either separately or as an added feature to a mail product. These include money orders and Post Office boxes, as well as services that provide customers additional security (such as Registered Mail and Insured Mail), information about delivery (such as Certified Mail, Return Receipt, Delivery Confirmation, Signature Confirmation, and CONFIRM), forwarding and return of mail, and address information. Although some Special Services contribute only modest revenue, as a group these services represent an important revenue source, providing \$3.7 billion in 2008.

All Insured Mail labels are barcoded and only items valued over \$200 require the recipient's signature. Customers may purchase up to \$5,000 of domestic insurance for packages at all Post Offices and up to \$500 at Automated Postal Centers (APCs) or online through Click-N-Ship or eBay. Click-N-Ship customers who purchase shipping

labels on *usps.com* have the option to add domestic insurance to Click-N-Ship purchases. Click-N-Ship customers can add insurance to Priority Mail and Express Mail; eBay customers can add insurance to Priority Mail, Express Mail, First-Class Mail, Parcel Post, and Media Mail. Insurance fees are the same online as at the retail counter. In addition, customers who purchase domestic insurance through Click-N-Ship and eBay can file their claims online.

Postal Money Orders are a safe, convenient, and economical alternative to sending money through the mail. They can be purchased from any Post Office or rural carrier. As a proactive



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measure aimed at further deterring fraud, domestic and international money orders were redesigned on October 27, 2008. The new money orders include a new color scheme and additional security features. When the money order is held up to a light, repeating images of the first Postmaster General, Benjamin Franklin, can be seen, making it easier for banks and Post Offices to detect counterfeits. A new holographic, multi-colored security thread also now weaves in and out of the paper to thwart counterfeiting.

Post Office Box service is offered for a fee to any customer requiring an alternative to free carrier delivery or general delivery. The fees vary by box size and postal facility location. As of August 2008, customers can now search, select, apply, and pay for new Post Office Boxes online. Current customers can sign up for one-time or automatic payments using their credit card. Customers can also renew their semi-annual or annual Post Office Box payments (excluding caller service boxes) at any Automated Postal Center.

Premium Forwarding Service (PFS) reships all mail from a household customer's primary address to a temporary address weekly via Priority Mail service, for a minimum of two weeks and up to one year. PFS was created to meet customer demand for an alternative to temporary forwarding service. Originally launched as a two-year experiment in August 2005, PFS became permanent in March 2008. The service is popular with customers, and volume has been growing steadily.

PASSPORTS APPLICATION ACCEPTANCE

More than 900 additional Post Offices began accepting passport applications in 2008. However, total passport-related revenue declined from \$360 million to \$283 million this year due to a \$5 reduction in the Department of State's fee per application.



Postal employees accept passport applications from new U.S. citizens following the Citizenship and Immigration Services's naturalization ceremony in Orlando, Florida.

The Department of State is now issuing a Passport Card to facilitate entry for travelers arriving from Canada, Mexico, the Caribbean, and Bermuda. The card is intended to meet the needs of border resident communities for a less expensive and more portable alternative to the traditional passport. To address demand for the card, the Postal

Service continues to expand the number of Post Offices accepting applications, with an emphasis on those in proximity to U.S. borders.

Mailing Services Performance Measurement

The *Strategic Transformation Plan 2006–2010* included a commitment to measure service performance for all classes of mail. The process began this year with the establishment of updated service standards for Mailing Services products. The service measurement procedures were implemented at the start of fiscal year 2009 after extensive dialogue with customers and consultations with the PRC. Reporting begins January 2009.

In designing the service standards and the measurement processes, the Postal Service engaged in unprecedented outreach to identify customer needs and preferences, and solicited input from postal unions and management associations. Two main themes emerged from this outreach: customers want reliable, consistent, realistic, and attainable standards; and customers support a cost-effective approach to service measurement that provides actionable information for both mailers and the Postal Service. The Postal Service submitted a draft Service Performance Measurement document to the PRC in November 2007 and in June 2008, followed with a revised version which provided detailed information about the proposed measurement systems.

The measurement systems are designed as a cost-effective means to provide reliable operating data for managing mail service. Service performance measurement will be an evolutionary process as the data and technology become more robust.

MEASUREMENT APPROACH

Two critical elements of service performance measurement are the date and time when the Postal Service takes possession of a mailpiece (otherwise known as the "start-the-clock") and the date when delivery occurs or is attempted (otherwise known as the "stop-the-clock"). The mailpiece service performance is the time elapsed between "start-the-clock" and "stop-the-clock," excluding non-delivery days. This performance is then compared to the established service standard for the mail category.

For service performance measurement, the Postal Service will continue to use the External First-Class Measurement system (EXFC) for single-piece First-Class Mail cards, letters, and flats and the International Mail Measurement System (IMMS) for single-piece First-Class Mail International letters. For letter, card, and flat-shaped Presorted First-Class Mail, and Standard Mail services, the Postal Service uses data collected from the IM barcode combined with externally collected delivery data. Periodicals measurement uses two external industry-based systems until IM barcode adoption increases sufficiently to measure similarly to Standard Mail. For parcel-shaped mail, the Postal Service uses an internal solution based on Delivery Confirmation scans obtained at acceptance and delivery. The sender also has access to the Delivery Confirmation information from the

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Track & Confirm function at *usps.com*. Performance measurement of various domestic special services uses internal measurement approaches.

EXFC

For single-piece First-Class cards, letters, and flats, EXFC is the system that continuously measures service for 3-digit ZIP Code service areas. In 2008, the Postal Service prepared for expanding EXFC measurement to include nearly all 3-digit ZIP Codes in 2009. The EXFC contractor (IBM Global Business Services) designs mailpieces to resemble the First-Class Mail mailstream; pieces are hand or machine-addressed, stamped or metered, and are of different colors, sizes, and weights. The number of pieces entered from each postal district is proportionate to the corresponding origin-destination volumes by service standard. The EXFC contractor then calculates service performance and compiles the necessary reports.

PARCELS

For parcel-shaped First-Class Mail, Standard Mail, and Package Services, the Postal Service uses an internal solution based on Delivery Confirmation scans obtained at acceptance and delivery. The Postal Service uses the Delivery Confirmation scan at the retail counter as the “start-the-clock” event for single-piece rate parcels. For presorted parcels, the documented arrival time at the postal facility is used as the “start-the-clock.” For presorted parcels, validation similar to that for letters and flats is performed to ensure that the parcels were dropped at the correct postal facility. The “stop-the-clock” event is the Delivery Confirmation scan performed at delivery or attempted delivery. The sender also has access to the Delivery Confirmation information from the Track & Confirm function at *usps.com*.

SPECIAL SERVICES

There are two categories of special services: ancillary and stand-alone. Ancillary special services are purchased in addition to the postage. These optional special services are varied in nature and include Delivery Confirmation, Signature Confirmation, Certified Mail, Electronic Return Receipt, Registered Mail, Collect On Delivery (COD), and Address Correction Service, among others. In contrast to ancillary special services, stand-alone special services are not contingent on sending or receiving a particular mailpiece and include services such as Post Office Box “up-time” performance, CONFIRM, and Address List Services.

The principal feature of ancillary special services’ performance measurement is the electronic provision of information by the Postal Service to the sender regarding delivery status of a particular mail piece. Service is measured by comparing when the information is collected to when it is available to customers. Stand-alone services generally provide a service or response. Service is measured by comparing when the information or response is available to customers to the schedule for the service.

REPORTING

Reporting will be provided quarterly on *usps.com*.

Shipping Services

Shipping services products face considerable market competition. These products represent the remaining 11 percent of postal revenue and include Priority Mail (domestic and international), Express Mail (domestic and international), domestic Bulk Parcel Post and Bulk International Mail.

Unlike mailing services, shipping services are not subject to a price cap. Instead, prices are driven by the market with a price floor as the only restriction. On May 12, new shipping services prices took effect designed to promote growth and attract new customers. Customer support was increased by adding 80 dedicated Package Sales specialists. The Expedited Shipping Web pages on *usps.com* were updated in mid-September to improve customer ease of use and navigation.

An integrated multi-media advertising campaign was launched to build awareness among business customers that the Postal Service is in the shipping business. The campaign included television, radio, print, direct mail, and Internet advertising. In addition, sales support materials were developed for public lobbies in Post Offices; for the local outreach programs Business Connect, Customer Connect, and Rural Reach; and for the professional sales force.

EXPRESS MAIL

Express Mail, the fastest postal product for time-sensitive items, offers guaranteed overnight or second-day delivery to most domestic addresses. The product includes tracking, proof of delivery, Sunday and holiday delivery where available, a flat-rate envelope option, and insurance up to \$100. Any mailable matter may be sent as Express Mail. Cradle to Cradle certified packaging is available at no additional cost.

Express Mail pricing was changed to include distance (zones) as an element of price. New commercial base prices that are lower than retail prices, and volume rebates for commercial base prices were added. The Postal Service introduced a premium price for Express Mail Sunday and federal holiday delivery, expanded overnight coverage, added a new legal-size envelope to shipping supplies, standardized the waiver of signature option, changed the redelivery process, and relaunched Express Mail Hold for Pickup service. An expedited acceptance process for prepaid Express Mail labels created online (e.g., via Click-N-Ship, PC Postage, or eBay) was also implemented.

The delivery procedure for Express Mail with a waiver of signature request was changed to save delivery costs and improve customer convenience. The carrier may place the shipment in the mail receptacle or leave it in a secure location without attempting to obtain a delivery signature. This change follows an industry

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practice while providing service requested by the sender. The delivery procedure for handling Express Mail without a waiver of signature request was also modified. Delivery personnel no longer automatically redeliver Express Mail shipments the next delivery day unless the recipient requests redelivery.

To simplify the deposit of prepaid packages at Post Offices, customers who use Click-N-Ship or PC postage have the option of printing a single Shipment Confirmation Acceptance Notice form for multiple packages to be mailed at the same time. The employee accepting the packages only has to scan the barcode on the form for all packages associated with the form rather than scan each package separately.

PRIORITY MAIL

Priority Mail offers customers delivery within 1 to 3 days for letters, documents, and merchandise weighing up to 70 pounds. It provides 6-day per week delivery, security, and preferential handling. Priority Mail includes Delivery Confirmation at no additional cost for the electronic option, convenient prepaid envelopes, custom-designed boxes, a convenient flat-rate envelope, and two flat-rate boxes. Cradle to Cradle certified packaging is available at no additional cost.

In 2008, Priority Mail pricing was changed to include new commercial base prices that are lower than retail prices. A new large flat-rate box, with a discount for boxes sent to overseas military addresses, was launched.

Open and Distribute service allows mailers to enclose and expedite mail in bulk, such as Standard Mail advertising or merchandise, in a Priority Mail sack or container and address it to a Postal Service facility. The receiving facility opens the container and sorts the enclosed mail for delivery within the service area of the facility. Priority Mail Open and Distribute service was redesigned to provide greater visibility, including standardized labels and identification, tracking, and a flat-rate packaging option for direct shipments to destination delivery units. The flat-rate packaging option makes sending smaller volumes easier and provides pricing that does not vary by distance or weight.

BULK PARCEL POST

Bulk Parcel Post consists of Parcel Select, Parcel Return Service, and discounted Parcel Post such as origin bulk mail center. Any mailable matter may be mailed as Bulk Parcel Post except matter required to be mailed as First-Class Mail, Customized Market Mail, and copies of a publication entered as Periodicals. Bulk Parcel Post must be entered as part of a mailing of 50 or more pieces and is not sealed against postal inspection.

Parcel Select is the ground package-delivery product designed for medium and large volume shippers and consolidators who have several pricing options depending on presort levels. Packages entered at destination facilities receive the best pricing. The Postal

Service holds quarterly meetings with the national consolidators' senior management to discuss issues such as scanning, service, and manifest accuracy. Parcel Select service performance was at an all-time high in 2008.

Parcel Select pricing was changed on May 12 to include two new discounts for Destination Delivery Unit (DDU): loyalty incentives featuring declining block prices for shippers with more than \$5 million in annual Parcel Select postage; and growth incentives represented by rebates based on annual postage for volume growth of more than 10 percent.

Parcel Return Service (PRS) offers an easy and convenient way for customers to mail back items that need to be returned, recalled, repaired, or recycled. Customers use a pre-printed label provided by the merchant or agent that does not require prepayment of postage. The merchant or agent retrieves returned parcels from Post Offices (termed "return delivery units") or bulk mail centers, and postage is deducted from an advance deposit account. PRS offers full end-to-end product visibility through the logistics partner, who reverse manifests each shipment. Customers can bring the parcel to a Post Office or request pickup during the normal delivery of their mail. A pickup request can be made at usps.com/pickup.

The PRS pricing structure was changed on May 12 to encourage growth and attract new mailers. PRS items retrieved at return delivery units receive lower prices than items retrieved at bulk mail centers.

International

The Postal Service surpassed its revenue targets for international mail. The Postal Service benefited from bi-lateral agreements negotiated with other postal administrations, individual contracts initiated during the year, and streamlined product offerings that appealed to customer needs and service expectations. Favorable exchange rates contributed to international package exports that exceeded expectations for the Postal Service.

PRODUCTS

Global Express Guaranteed (GXG) is the premium international Postal Service shipping option, with international transportation and delivery provided by FedEx Express. GXG offers reliable, high-speed, date-certain delivery, within 1 to 3 business days to over 190 countries, with a money-back guarantee (some restrictions apply). GXG customers receive a 10 percent discount when postage is paid online at usps.com or through authorized PC Postage vendors.

Express Mail International provides reliable delivery within 3 to 5 business days on average to over 190 countries. It features tracking and insurance up to \$100 at no additional charge. Customers receive an 8 percent discount when postage is paid online at usps.com or through authorized PC Postage vendors. The same Postal Service-provided Express Mail packaging used domestically can also be used for international shipping, including the Express Mail flat-rate

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envelope. Money-back delivery guarantee is available for items mailed to Australia, China, Hong Kong, Japan, and the Republic of Korea.

Priority Mail International is available to over 190 countries and offers delivery within 6 to 10 business days on average. Customers receive a 5 percent discount when postage is paid online at *usps.com* or through authorized PC Postage vendors. The same Postal Service-provided Priority Mail packaging used domestically can also be used for international shipping, including the flat-rate envelopes and boxes. Tracking is available to major destinations in Asia, Canada, and Europe, and limited indemnity is provided at no additional charge for parcel shipments.

First-Class Mail International is a reliable and economical means of sending correspondence, documents, and lightweight merchandise weighing up to 4 pounds. Shape-based pricing, introduced with the May 12 price change, aligns the First-Class Mail International price structure with domestic First-Class Mail structure implemented in May 2007. There are now separate prices for letters, large envelopes, and packages.

OPERATIONS

International Service Centers (ISCs) distribute and dispatch international mail received from a designated service area to specific foreign countries or to gateway exchange offices. There are currently five ISCs: New York, Miami, Chicago, Los Angeles, and San Francisco.

Each of the five centers has been recognized for global leadership in international mail processing with an International Post Corporation (IPC) Certificate of Excellence award. This award is based on a year-long certification process, which includes on-site checks to verify compliance with 140 items. Certification is awarded for a 3-year period, with continual IPC validation to assure that performance levels are maintained.

The IPC is a cooperative association of 24 postal operators in Europe, North America, and Asia-Pacific dedicated to improving the quality of international mail, managing payment systems, and providing platforms for chief executives and their top teams to exchange views.

UNIVERSAL POSTAL UNION

The Postal Service achieved several key accomplishments at the Universal Postal Union (UPU) 2008 Geneva Congress. Over 80 percent of the U.S. proposals were approved, and most of the others were referred for further study. Highlights include the passage of operational proposals to accelerate use of electronic data interchange for customs clearance of postal items, adoption of quality of service programs, and elimination of the prohibition against correspondence such as greeting cards in parcels.

The UPU Congress also endorsed creation of a Global Monitoring System that will use radio-frequency identification (RFID) technology to measure destination operator performance delivering inbound international mail. In the future, this process will connect with the payment of terminal dues and facilitate speedier identification of weak links in the flow of international mail.

The terminal dues proposals adopted at the UPU Congress amounted to only gradual increases, which is consistent with the Postal Service goal to maintain affordable international pricing for mailers. Several developing countries will join the Target System, the UPU's more advanced cost-based terminal dues regime currently composed of all industrialized countries including the United States.

The UPU Congress also approved continuance of the Consultative Committee, which is composed of 19 private sector members. UPU member countries were encouraged to seek the advice and expertise of the Consultative Committee and to explore opportunities for public/private partnerships in their respective countries. Finally, the Congress adopted an entirely new Postal Payment Services Agreement to modernize the exchange of electronic and paper postal payment orders.

The United States received a large number of votes for its election to the UPU Postal Operations Council and Council of Administration, reflecting the international postal community's trust and confidence in the United States in general, and the United States Postal Service, in particular.

MILITARY MAIL

The Department of Defense is a key customer using the Postal Service international distribution and transportation services. Overseas military mail is mail matter delivered to APOs (Army and Air Force Post Offices) and FPOs (Navy and Marine Corps Post Offices) not within the United States. This mail service is an extension of the domestic mail service and includes all mail addressed to or mailed from a military unit located outside the United States or between two military units overseas. The Postal Service is committed to providing top operational service to American service men and women stationed overseas.

CUSTOMS

Mail entering the United States from abroad arrives first at the U.S. Postal Service. The Postal Service then sends packages to U.S. Customs for examination and assessment of any duty owed. Customs processing is required for all parcels, including those sent from overseas military postal facilities (APO/FPO). The Postal Service is working closely with the UPU, IPC, and U.S. Customs and Border Protection to streamline and improve these processes. The Postal Service is supporting the introduction of advance manifesting requirements for mail shipments to improve security, deter criminal activity, and enhance the efficiency and speed of clearance operations.

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Stamps

Working closely with three authorized stamp manufacturers, an unprecedented variety of stamps related to the price change were available prior to the May 12 implementation date through all retail channels, including Post Offices, *usps.com*, and other alternative customer access points. Price change stamps included the denominated versions of the postcard price, the First-Class Mail flag stamp, 2-ounce and 3-ounce letter price stamps, and all postal stationery.

Stamp Fulfillment Services, located in Kansas City, MO, continued to provide a convenient channel for customers to purchase stamps and philatelic products. In 2008, 3.4 million orders were received by telephone, through the mail, and online at *usps.com*. Total revenue through this channel increased 9 percent.

Of the 37 billion stamps, stamped envelopes, and stamped cards produced this year, 7.8 percent were part of the commemorative program. A wide variety of exciting commemorative stamps were issued in 2008 including tributes to four great American Scientists, Black Heritage inductee Charles Chesnutt, the Lunar New Year series, and beloved author Marjorie Kinnan Rawlings. In May, Frank Sinatra headlined the program with a new 42-cent stamp. Flags of Our Nation, a new three-year series designed to stimulate interest in stamp collecting, was introduced on Flag Day. Sixty stamps displaying the flags of all states, territories, and the District of Columbia will be issued in a coil format through 2010.

Additional stamps honored the 100th anniversary of the popular song “Take Me Out to the Ball Game,” the design talents of Ray and Charles Eames, the sounds of Latin Jazz, actress Bette Davis, movies of the Vintage Black Cinema era, noteworthy American Journalists, the 2008 Olympic Games, and classic cars of the 1950’s featuring tail fins and chrome. The social awareness stamp for 2008 focuses attention on Alzheimer’s, a disease that impacts the lives of 5 million Americans and their families.



Stamp collector Richard Jansen takes a closer look at the Charles and Ray Eames stamps following the First Day of Issue ceremony in Santa Monica, California.

The fifth and final edition of the Art of Disney series was issued on August 7. All of the previously issued Art of Disney stamp panes have landed on the top 15 list of most collectable stamps since 1988.

Ideas for many of these stamps came from the American public. Each year 50,000 ideas are submitted for consideration by the Citizens’ Stamp Advisory Committee, a cross section of designers, historians, and educators, to narrow the selection of stamp subjects issued. The Committee reviews the suggestions and makes recommendations to the Postmaster General for final approval. The time between submitting a stamp idea and issuing the stamp can take several years. Additional information can be found at *usps.com/communications/organization/csac.htm*.

In addition to using stamps to commemorate people, events, and places, the Postal Service also issues stamps to fund causes as mandated by Congress. The Postal Service currently has one 55-cent fundraising or semipostal stamp available for purchase: the Breast Cancer Research stamp. Since its release in 1998, the Postal Service has sold more than 835 million stamps and raised more than \$64 million for breast cancer research. The price of a semipostal stamp pays for the First-Class Mail single-piece postage price in effect at the time of purchase, plus an amount to fund the cause. By law, 70 percent of the net amount raised is given to the National Institutes of Health and 30 percent is given to the Medical Research Program at the Department of Defense.

Market Research

To evaluate and respond to changing customer needs, the Postal Service conducted several market research studies.

Small Business Technology and the Mail: This study shows that mail still plays an important role in today’s “wired” world even though the Internet has become an important tool for many small businesses. Mail is still valued more strongly than the Internet for privacy and security, whereas the Internet is valued for speed and cost. Although both channels are considered reliable, the study indicates that small businesses increasingly prefer online communications. In the face of these changing preferences, the Postal Service is exploring ways to leverage mail as a complement to the Internet to keep it relevant and important for small businesses. Several external studies have shown that mail adds value to campaigns that use other advertising and marketing media. Mail also complements online methods and improves campaign results.

CEO of the Mail and Technology Adoption: First started in 2004, this study shows that attitudes toward mail and the Internet remain relatively stable across generations. “CEOs of the Mail” — the persons most responsible for handling and using mail in a household — still prefer to receive promotional information about products and services through mail rather than email. The most recent research, however, reveals a strengthening of attitudes toward the Internet across various dimensions. Relevance of mail appears to be an issue with Gen Y consumers although they enjoy and use mail.

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The younger generations generally regard the Internet more highly. As technology begins to play a larger role in people's lives, redefining the role and relevance of mail will be important.

eBay High Volume Sellers: This qualitative study shows that high-volume eBay sellers select shipping companies based on price, package size, and package weight. They typically choose the Postal Service because it is perceived as the "low-cost" provider. These sellers like the easy online Click-N-Ship service for labels and payment and the convenience of free at-home Carrier Pickup service. They also like the co-branded Priority Mail boxes provided by the Postal Service at no charge.

2007 Household Diary Study: Published in March, this study measures the mail sent and received by U.S. households in 2007, tracks household mail trends, and compares mail use among different household types. The report examines trends in the context of changes and developments in the wider markets for communications. In 2007, households received 150.9 billion pieces of mail and sent 21.2 billion pieces, together making up 79 percent of total domestic mail.

The Direct Mail Qualitative Study: This study presents the perceptions of users and non-users of direct mail. It also assesses the sophistication of direct mailers as marketers and how well they planned advertising for the upcoming year. The research examines customer reactions to three new concepts considered by the Postal Service as options to assist advertisers in using direct mail.

The Post Office Box Qualitative Study: This study shows the perceptions among users, former users, and competitive users about renting a local Post Office Box. It also assesses the reasons why they rent or no longer rent a Post Office Box. The research explores customer reactions to some potential new features and concepts that could increase revenues.

Intelligent Mail®: This research evaluates the strategies and actions being taken to implement Intelligent Mail® by end users and vendors and their readiness to implement on schedule. Key findings reveal that current CONFIRM users along with the largest companies and vendors will likely adopt Intelligent Mail to retain the lowest prices. The largest and more sophisticated mailers and vendors appear well informed and are developing strategies and plans, whereas the smaller mailers and vendors appear less informed and are waiting to determine their best options.

Innovation Center: This research project shows the impact on customers' attitudes and behaviors of the Innovation Center, a redesigned prototype retail outlet in Schaumburg, IL. The key findings reveal improvement in user attitudes about and experiences with this redesigned Post Office compared to more traditional Post Offices. In addition, the research shows that customers tend to use more core services in this environment.

Advertising Effectiveness Research: This research is a continuous tracking survey among consumers and businesses to measure the effectiveness of Postal Service advertising. The research shows that customer awareness of the advertising has increased, and the perceptions of consumers and businesses have improved on several key categories.

Postal Regulatory Commission Proceedings

Operating under the Postal Act of 2006, the Postal Service filed cases with the Postal Regulatory Commission (PRC) that modified the pricing and classification of products and services, established mailing and shipping services contracts for domestic and international mail, and submitted reports, documents, rulemakings, and studies required by the new law.

Annual Compliance Report: Docket No. ACR 2007

Although not required to file the first compliance report until fiscal year 2008, on December 28, 2007, the Postal Service provided information on revenue, costs, and pricing in its first *Annual Compliance Report*. The PRC on March 27, 2008, published its first *Annual Compliance Determination Report*, verifying that the Postal Service was in compliance with the law.

Mailing Services

Notice of Price Adjustment: Docket No. R2008-1

Consistent with the Postal Act of 2006, the Postal Service announced that it would adjust its mailing services prices each May and increase these prices by class (on average) no more than the rate of inflation, as calculated using the Consumer Price Index. A 90-day advance notice of the new prices changes will give customers time to make necessary adjustments.

On February 11, the Postal Service announced a May 12 price adjustment for mailing services — First-Class Mail, Standard Mail, Periodicals, Package Services, and Special Services. The average increase by class of mail was at or below the CPI cap (2.9 percent).

This pricing change was the first under the Postal Act of 2006. The First-Class Mail stamp price was increased to 42 cents. For the first time, customers could continue to use the Forever Stamps they purchased before the price change, without adding additional postage. The PRC approved the changes, with these highlights:

- No change in the First-Class Mail single-piece additional-ounce price.
- Lower additional-ounce price for presorted nonautomation First-Class Mail letters.
- Lower per-pound price for Standard Mail saturation and high-density flats.
- Shape-based pricing for First-Class Mail International letters, flats, and parcels.

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- **First-Class Mail International** expanded from five to nine price groups.

Modification of Mail Classification Schedule Regarding Repositionable Notes: Docket No. MC2008-2

On February 27, the Postal Service filed a request to make the provisional Repositionable Note (RPN) service a permanent optional feature. The Postal Service had offered RPN service as a provisional service since April 3, 2005. This service allows bulk mailers of letters and flats to mechanically attach removable, self-adhesive notes to the outside of mailpieces for a small additional charge. On March 19, the PRC accepted this change.

Modification of Mail Classification Schedule Regarding Bound Printed Matter: Docket No. MC2008-3

On March 20, the Postal Service gave notice that all Bound Printed Matter be paid with a permit imprint mailing permit. On July 16, the PRC accepted this change.

Mailing Services Contracts

The Postal Service implemented two mailing services contracts designed to grow Standard Mail volume: Docket No. MC2007-4 (filed on August 3, 2007, with a decision on April 18, 2008), and Docket MC2007-5 (filed on August 8, 2007, with a decision on May 29, 2008). The Postal Service also implemented on April 1 a mailing services contract designed to encourage early adoption of Intelligent Mail® barcodes and related technologies: Docket No. MC2007-1 (filed on February 7, 2007, with a decision on October 19, 2007). This contract provides performance-based incentives to reduce costs associated with First-Class Mail and Standard Mail letters.

Shipping Services

Competitive Products Price Changes Regarding Rates of General Applicability: Docket No. CP 2008-3

On March 12, the Postal Service announced a May 12 price adjustment for shipping services — Express Mail, Priority Mail, Parcel Select, Parcel Return Service, and International Mail (other than First-Class Mail International). For the first time, pricing included commercial and retail prices, volume rebates, lower online prices, and other new incentives to encourage volume retention and growth. The PRC reviewed the new pricing for shipping services and determined that it was consistent with statutory requirements. Highlights of domestic mail pricing changes include:

- **Express Mail** was changed to a zone-based pricing system, with customers paying less for nearby destinations. Customers also received a 3 percent price reduction for purchasing online or through corporate accounts. Additional price reductions became available for those who ship quarterly minimum volumes.
- **Priority Mail** averaged 3.5 percent savings for customers using electronic postage or meeting other requirements.

- **Parcel Select** — the Postal Service “last mile” delivery for ground parcels — featured pricing and volume incentives.

- **Parcel Return** Service moved entirely to a weight-based pricing system, with price reductions for many lighter ground packages.

Competitive Products Price Changes Regarding Priority Mail Flat-Rate Box: Docket No. CP 2008-1

In March the Postal Service introduced the Priority Mail Large Flat-Rate Box, with pricing that included a military discount for the first time. The discount enhances good will and reflects the unique economics of military care packages.

Competitive Products Price Changes Regarding Express Mail Service on Sundays and Holidays: Docket No. CP 2008-2

On January 17, the Postal Service gave notice of a change that established a premium for guaranteed delivery of Express Mail pieces on Sundays and federal holidays.

Modification of the Mail Classification Schedule Transfer to Competitive Product Category Premium Forwarding Service: Docket No. MC2008-4

On May 30, the Postal Service petitioned to transfer Premium Forwarding Service to the competitive product grouping to reflect the competitive nature of this market place. The PRC granted this transfer on July 16, 2008.

Shipping Services Contracts

In 2008, the Postal Service submitted 21 contracts to the PRC related to the shipping services products.

Rulemakings

Rules to Establish Procedure for According Appropriate Confidentiality: Docket No. RM2008-1

On August 13, the PRC issued a notice of proposed rulemaking to establish rules for its handling of information provided to it and designated as confidential by the Postal Service under 39 U.S.C. § 504(g)(3)(A). The PRC is authorized to publicly disclose or permit restricted access to commercial postal information if “the nature and extent of the likely commercial injury to the Postal Service” does not outweigh “the public interest in maintaining the financial transparency of a government establishment competing in commercial markets”. The proposed rules would establish procedures by which the Postal Service may designate as confidential (nonpublic) information that it provides to the PRC and establish a process for review of challenges to the Postal Service designation of any such commercial information as nonpublic. The Postal Service filed its initial comments on the proposed rules on September 25 and its reply comments on October 10.

Periodic Reporting Costing Methods: Docket No. RM2008-2

On August 11, the Postal Service filed a motion regarding proposed changes in costing methodology for the fiscal year 2008 *Annual*

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Compliance Report. A technical conference took place at the PRC in which Postal Service representatives responded to questions to explain further the basis for Proposals One through Nine. The PRC issued an order on October 10 authorizing the Postal Service to make changes to the costing methodology.

Notice and Order of Proposed Rulemaking Establishing Rules for Complaints: Docket No. RM2008-3

On August 21, the PRC issued a notice of proposed rulemaking revising its rules and procedures for handling rate and service complaints filed pursuant to 39 U.S.C. §3662. The PRC's proposed rules would establish a bifurcated framework for investigating and considering formal complaints alleging violations of law, on one hand, and more localized rate and service inquiries, on the other. The Postal Service filed its initial comments on October 7.

Periodic Reporting Rules: Docket No. RM2008-4

This rulemaking, initiated August 22, is intended to develop rules covering both the information submitted by the Postal Service as part of its *Annual Compliance Report* every December, and periodically throughout the year on other matters. As well as specifying the content of the required reports, the proposed rules also establish procedures by which the analytic methodologies used to develop those reports can be addressed and, if necessary, amended.

Accounting Practices and Tax Rules for Competitive Products: Docket No. RM2008-5

This rulemaking, initiated September 11, requires the PRC to prescribe rules applicable to competitive products for the establishment and application of the accounting practices and principles to be followed by the Postal Service, and the substantive and procedural rules for determining the assumed Federal Income Tax on competitive products income.

Modification of Costing Methods — Docket No. RM2008-6

This rulemaking, initiated September 12, provides an informal rulemaking proceeding comparable to Docket No. RM2008-2 to consider two more proposed changes to the costing methods approved for periodic reporting. The PRC accepted these proposals on October 22.

Other Dockets

Review of Nonpostal Services: Docket No. MC2008-1

On December 20, 2007, the PRC initiated its statutorily required review of nonpostal services. The case is still pending.

Complaint of Michael Hammond: Docket No. C2008-1

This complaint, brought by an individual mail recipient, centered on safety of delivery to a delivery receptacle served by a rural carrier. Delivery to the receptacle had been suspended for nearly a year. The Postal Service defended the actions of local postal officials, but also

chose to re-commence delivery. The PRC accordingly dismissed the complaint as moot.

Complaint on Bound Printed Matter: Docket No. C2008-2

On April 2, the PRC dismissed a complaint, by an individual, that had been filed on January 3 regarding limitations on the availability of Bound Printed Matter at the retail window. The PRC found the complaint was rendered moot by the classification change made in Docket No. MC2008-3 that allows Bound Printed Matter to be paid only with a permit imprint.

Complaint of Capital One Services, Inc.: Docket No. C2008-3

Capital One Services, Inc. (Capital One) filed a complaint on June 19, seeking to obtain a Negotiated Service Agreement (NSA) with the Postal Service "that is substantively identical to the Bank of America NSA, without any further negotiation between the Postal Service and Capital One." The PRC denied the Postal Service motion to dismiss and this case is pending before the PRC.

Public Inquiry — Service Performance Measurement Systems for Market Dominant Products: Docket No. PI2008-1

This pending Public Inquiry was opened on December 4, 2007, pursuant to the Postal Act of 2006 that the Postal Service submit to the PRC for approval any internal systems designed by the Postal Service for measuring market dominant product service performance. The PRC has solicited public comment on two drafts (November 2007 and June 2008) of a Postal Service document describing the systems it has designed. The docket is still pending.

Public Inquiry — Review of Treasury Report (Accounting Practices and Tax Rules for Competitive Products): Docket No. PI2008-2

On December 17, 2007, the Secretary of the Treasury submitted a report to the PRC containing recommendations concerning accounting principles and practices relating to competitive products and the Competitive Products Fund. Initially, the PRC began a proceeding (Docket No. PI2008-2) to solicit and consider comments from interested parties in response to issues raised in the Treasury report.

Initial comments and reply comments were filed by the parties on April 1 and May 1, respectively. Subsequently, the PRC issued proposed rules on the matters covered in the Treasury report, and initiating Docket No. RM2008-5 to consider comments.

Universal Postal Service and the Postal Monopoly: Docket No. PI2008-3

The PRC solicited comments on universal postal service (USO) and the postal monopoly (including the Private Express Statutes and mailbox access rule). The Postal Act of 2006 requires the PRC to submit a report to the President and Congress on USO and the postal monopoly not later than December 19, 2008, and is required to consult with the Postal Service and other interested parties.

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In regard to this inquiry, the Postal Service submitted comments and filed a report in October. The Postal Service report includes the context and outcome of liberalization of postal markets in other countries and how their experiences relate to the United States, estimates of the cost of various aspects of the USO, the potential security effects of opening access to the mailbox, and other supporting research.

Inquiry into Cooperative Mail Rule Exception: Docket No. PI2008-4

This pending Public Inquiry was opened pursuant to the directive in the PAEA that the PRC examine an exception to the cooperative mail rule (CMR) established by the Postal Service in 2003. Generally, the exception exempts certain fundraising mailings from the application of the CMR. The PRC is to examine whether the change contained adequate safeguards to protect against abuse of nonprofit rates and deception of consumers. A report from the PRC is pending.

Chapter 3 **Our Workforce**

As a labor-intensive business, the Postal Service continually seeks to balance human resources in order to provide consistent high-quality service as efficiently as possible. It achieves this through continuous workforce planning, optimizing the mix of employees, recruiting a highly-qualified workforce, providing competitive compensation and benefits, and offering effective job-based training and career development.

Recruitment and Development

RECRUITMENT

Placing the right people in the right jobs is an ongoing Postal Service priority. This year saw the national launch of eCareer, an online job posting and hiring tool that allows applicants in any location to apply for postal jobs at usps.com/employment. Besides being a significant enhancement to the previously manual process, eCareer will provide a wide range of metrics expected to help future workforce planning efforts.

To reinforce the value and importance of diversity in its workforce, the Postal Service participates in a number of events and conferences highlighting employee contributions, including the annual *Public Service Recognition Week* career fair. These events are also an important component of recruitment efforts, providing a broad audience for information about the value of a Postal Service career to prospective employees. Postal participation in national events included the *Blacks In Government National Training Conference*; the *National Black MBA Association Conference*; the *Urban League*; the *Society of American Indian Government Employees*; the *National Congress of American Indians*; the *League of United Latin American Citizens*; the *National Council of La Raza*; the *National Hispana Leadership Institute*; and the *Asian Pacific American Federal Career Advancement Summit*.

The Postal Service is among the nation's largest employers of veterans and disabled veterans and actively recruits men and women in uniform. In 2008, the Postal Service employed 159,795 veterans. Of this group, 55,609 received injuries while in uniform; of that number, 15,679 were rated at 30 percent or more disabled. Competitive procedures are used to select individuals with disabilities for employment. People with severe disabilities receive noncompetitive employment consideration through referrals from state departments of vocational rehabilitation or the Department of Veterans Affairs. This year the Postal career workforce included 38,286 employees with reported disabilities.

The newly redesigned Management Intern program creates additional opportunities for recruitment and placement of people with specialized training and skills. Business units benefit from the ability to hire talented university graduates. Recruitment partnerships have been developed with a number of universities, including the University of Maryland, Virginia Polytechnic Institute and State University, Michigan State University, Penn State University, and George Mason University.

Implementing telecommuting and alternate work schedule (AWS) programs for Headquarters and Headquarters Field Unit exempt employees is part of a long-term strategy to recruit and retain top performers. AWS allows employees to adjust schedules to fit individual needs as well as balance work and family responsibilities. Telecommuting allows employees to work at home or in a satellite location, which also reduces fuel use.

DEVELOPMENT

The William F. Bolger Center for Leadership Development is the national executive management and leadership training center for the Postal Service. Its mission is to continue to provide a premier learning environment for managers to develop, plan, and grow personally and professionally. Over 95,000 people used the center in 2008, including 34,297 postal employees who attended courses and meetings. Training and conference support for non-postal clients generated more than \$3 million.

The Postal Service is preparing future leaders by making management training more relevant, improving communications, and providing tools to improve leadership performance.

A revitalized Advanced Leadership Program (ALP) was launched for high-performing employees this year, with a streamlined format, reduced from 4 to 3

weeks. The redeveloped curriculum includes a blend of classroom, eLearning, and business simulation. A new ALP Web tool provides participants with a central repository for program information

and a convenient means to share experiences and collaborate online. ALP program enhancements suggested by prior attendees have been incorporated into class guidelines and simulations. Another significant change is the elimination of the mandatory college course requirement. The developmental needs of participants after ALP will be customized by executive sponsors. This year 32 ALP graduates were promoted to executive positions.

The Managerial Leadership Program (MLP) is a new 2-week development program designed to enhance the leadership skills and professional growth of high potential mid-level managers. The foundation of MLP is the Managerial Competency Model which identifies essential management skills relevant to the postal workplace. The first three MLP classes were completed in October 2008 and included 70 field and 18 headquarters participants.

Three new Functional Skills Development courses were offered for recently promoted or reassigned managers in key mid-level field



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positions. New courses are Manager, Customer Service; Manager, Operations Program Support; and Postmaster level 21 and 22. Employees promoted to these positions are automatically enrolled.

Current leadership competency models have been revised and integrated into all existing leadership development programs, including the Executive Development Continuum (EDC), Advanced Leadership Program (ALP), and Managerial Leadership Program (MLP). An Officer Leadership Competency model has been approved to guide program design for the next stages of the EDC.

The Postal Service continues to develop a highly motivated, competent group of managers to fill key executive positions. There were 724 Postal Career Executive Service (PCES) managers in 2008, including 44 officers and 89 newly-appointed executives. To maintain a highly-productive executive workforce, the Postal Service offers four PCES developmental training tiers, known as the Executive Development Continuum (EDC). In 2008, 131 executives participated in the EDC program.

Future executives are identified through the Corporate Succession Planning (CSP) process. CSP operates on a 2-year cycle, during which employees recommended as potential successors develop and pursue personalized individual development plans to prepare them for the additional responsibilities of executive assignments. In 2008, 1,148 employees applied to be included in CSP for field executive positions and 989 CSP applicants completed the Executive Competencies for Effective Leadership (EXCEL) online assessment designed to help guide the selection process and the career development of individual applicants.

LEARNING ENVIRONMENT

The Postal Service offers a comprehensive learning continuum for all employees to reinforce success and drive performance. It accomplishes this objective through training programs that allow employees to build their operational skills and knowledge, and enhance their personal competencies. The learning continuum encompasses leadership development and talent management at all levels, and is designed to meet the varied and changing needs of an inclusive organization.

Orientation for Postal Leaders (OPL) was developed to help newly hired headquarters EAS and PCES employees gain an understanding of our business, including our mission and strategic direction. The program was implemented in September. The *Growing the Business* module prepares new employees to use and market our products and services and includes a tutorial on *usps.com* and a Discovery Map activity.

The Discovery Map is an interactive orientation tool which demonstrates how revenue is generated, costs are expended, and how the challenges of a constantly changing business environment affect the bottom line. Emphasis is on how day-to-day actions and decisions have a financial impact on the organization.

The National Center for Employee Development (NCED) in Norman, OK, is the Postal Service's primary learning facility to manage, maintain, and operate postal systems; support mail-processing equipment; improve systems performance; manage networking infrastructures; and deploy new vehicles. In 2008, NCED delivered 336 courses to 377,200 people — 18 percent more students than in 2007. 23,552 attended the NCED campus, taking courses that ran from three days to six-weeks. Another 353,648 employees completed courses in their home offices, a 19 percent increase. This increase reflects ongoing efforts to expand employee access through eLearning, DVDs, and field-site delivery.

A major NCED initiative this year was the support of the Postal Service's Continuous Improvement Lean Six Sigma initiative. NCED delivered resident and field training to more than 1,200 supervisors, managers and executives. Training was also developed to support operation and maintenance of the Flats Sequencing System; a new automated process to place larger mail pieces into delivery sequence. Installation of two, training-sized FSS machines at NCED began in late 2008, and courses will be taught both day and night beginning in 2009.

The Postal Service provided 424 eLearning courses in 2008, with participants completing 246,217 courses. Courses combined materials developed in-house and commercial off-the-shelf products designed to enhance employee performance.

Multiple systems now deliver and track postal training programs, but this year the Postal Service began integrating them into a single Learning Management System (LMS). LMS will better align training assets and processes with business goals and employee performance needs. It will also allow the Postal Service to streamline business processes, implement enterprise learning technology, and accelerate learning benefits.

Diversity

Diversity is key to Postal Service success and impacts every aspect of the organization — its employees, its customers, and its performance. Postal Service diversity reflects the diversity of the nation. It comprises not only race, color, national origin, and gender, but other attributes, including social background, education, life experience, and perspective.

The Postal Service is one of the leading employers of minorities and women. Minorities comprised 38.96 percent of the workforce, and women comprised 37.33 percent.



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Twenty-one percent of employees are African-Americans; 8 percent are Hispanic; 8 percent are Asian-Americans; and 0.06 percent are American Indian/Alaska Natives.

Inclusiveness in the Marketplace

Employee understanding and appreciation of customer needs strengthens their ability to market postal services to the nation's diverse communities. Leveraging diversity is a critical component in making the Postal Service the best value in the market and a service-provider of choice. To help communicate with non-English-speaking customers, the Postal Service developed aids in nine languages (Spanish, French, Chinese, Korean, Vietnamese, Russian, Portuguese, Hindi, and Arabic). These aids help employees match postal services to the needs of a multicultural customer base. In-language holiday fact sheets focused on shipping and the range of retail services. There is also an online multicultural outreach toolkit available in the same nine languages.

Today, more than one in nine U.S. small businesses is Asian or Hispanic-owned. These businesses export 50 percent more shipments than non-minority firms.

The Postal Service developed the *GoGlobal!* initiative to assist customers shipping to Latin American and Asian destinations with information about their products. Ten districts were identified as pilot sites: Atlanta, Bay-Valley, Houston, Los Angeles, Northern Illinois, San Diego, San Francisco, Santa Ana, Seattle and Triboro. *GoGlobal!* team members started to build relationships with Asian and Hispanic-owned businesses, local chambers of commerce, the Small Business Administration, and U.S. Commercial Services. Many of the pilot sites hosted *GoGlobal!* events where team members promoted international postal products and customized shipping solutions.

Outreach efforts support strategies to stay connected with all customers and to better assess their needs. Hispanic Program specialists servicewide attended training to engage in efforts to foster an inclusive workplace and marketplace. The specialists received information on recruitment strategies and specific products and services. Spanish-language media training was provided to enhance our communications to Hispanic communities through Spanish-language media. As part of outreach efforts, the South Florida District started a media campaign with the Cuban community to promote parcels to Cuba.

The Postal Service also participated in national and local community events commemorating month-long celebrations for Black History, Women's History, Asian Pacific American Heritage, Hispanic Heritage, and American Indian Heritage. These events promoted diversity awareness and the wide variety of postal services.

Recognizing Leadership Commitment

The Postal Service's commitment to an inclusive business culture was recognized by several publications this year. *Hispanic Business*

magazine named the Postal Service one of the best companies for Hispanics. It was the only federal agency in the magazine's *Diversity Elite 60* list, as measured in 30 categories, including commitment to Hispanic hiring, promotion, marketing, philanthropy, and supplier diversity. *Hispanic Business* noted that we are not only delivering the nation's mail, "but also a commitment to diversity within the huge organization, with suppliers and throughout the communities it serves."

Compensation and Benefits

Compensation and benefits for current employees and retiree health benefits make up nearly 80 percent of postal operating expenses. Compensation plans are designed to attract, retain, and motivate employees, while also meeting all relevant statutory requirements. The sections below discuss the Postal Service's statutory standard of pay comparability to the private sector, primary benefit plan features, and developments in compensation and benefits.

Pay Comparability

Federal law governing the Postal Service provides that compensation and benefits for its officers and employees shall be comparable to the rates and types of compensation paid in the private sector. To achieve this, negotiations between the Postal Service and unions continue to apply the principle of moderate restraint set forth in past interest arbitration awards. The compensation of most bargaining units meets or exceeds private sector levels. The average annual pay and benefits for career bargaining unit employees was \$66,929 this year, excluding corporate-wide expenses that cannot be attributed to individual employees.

Pay for supervisors, postmasters, and other nonbargaining employees provides an adequate and reasonable differential between first-line supervisors and bargaining-unit employees, and meets or exceeds comparability standards.

The law governing the Postal Service also provides that executives should be compensated at a level comparable to the private sector. However, the Postal Service's status as a federal entity precludes the ability to achieve a comparable standard of compensation due to compensation caps. Within these statutory salary limitations, the Postal Service continues to provide performance-driven pay actions in support of its goal to enhance its performance-based culture.

New compensation support systems were implemented in September for employees of the Office of Inspector General and employees in headquarters non-executive pay bands. Both groups were assigned separate rate schedule codes for better identification and programming of personnel systems. For the Office of Inspector General, a customized compensation system was established to improve administering the unique requirements of their pay and benefit policies.

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Pay-for-Performance

The Postal Service's award winning Pay-for-Performance (PFP) program continued to drive organizational achievement in 2008. (Performance results are highlighted in Chapter 5.) PFP is the sole source of annual pay adjustments for non-bargaining unit employees. The foundation of the evaluation system is a balanced scorecard of objective, independently-verifiable measures of service, workplace environment, productivity, and financial performance. Performance indicators are measured at national, area, district, business unit, and individual levels so that meaningful performance distinctions are made within the line-of-sight of all managers.

In September, the Government Accountability Office issued a report on the PFP program which included a recommendation for new delivery performance indicators for Standard Mail and bulk First-Class Mail. These will be baselined in 2009 along with other mailing services as required by the Postal Act of 2006. The Postal Service's PFP program has been cited by several independent entities as a model for other agencies to emulate as it links individual contributions to organizational success through objective indicators that are aligned at the corporate, functional, and individual levels.

The Performance Evaluation System (PES) automates the recording of core performance requirements and individual results. PES has improved efforts to provide timely and specific feedback on individual performance. The major change in PES this year was a broader range of individual core requirement ratings, designed to allow evaluators to differentiate performance contributions to a finer degree. PES was enhanced to give evaluators the ability to rate executives on eight executive competencies. The Ratings Recourse process was enhanced to allow evaluators to approve and/or modify rating challenges by employees for individual core requirement ratings.

Pursuant to §39 U.S.C 3686(d), the Postal Service hereby reports that during calendar year 2007 the following individuals received compensation in the amounts listed in excess of the rate for level I of the Executive Schedule under section 5312 of title 5:

Kathleen Ainsworth	\$29,090
Drew T. Aliperto	\$8,701
William Almaraz, Jr.	\$243
Nicholas F. Barranca	\$2,683
Anita J. Bizzotto	\$51,594
Sylvester Black	\$53,418
Megan J. Brennan	\$29,090
Susan M. Brownell	\$23,117
Ellis A. Burgoyne	\$41,102
Michael J. Daley	\$28,208
Thomas G. Day	\$15,776
Patrick R. Donahoe	\$72,230
Jo Ann Feindt	\$28,292
William P. Galligan, Jr.	\$68,532

Deborah M. Giannoni-Jackson	\$29,090
Mary Anne Gibbons	\$72,231
Joanne B. Giordano	\$16,808
Timothy C. Haney	\$41,537
Todd S. Hawkins	\$6,621
Wendy A. Hocking	\$10,127
Stephen M. Kearney	\$27,679
Delores J. Killete	\$10,763
Linda A. Kingsley	\$14,061
Susan M. LaChance	\$11,867
Jerry D. Lane	\$29,770
Alexander Lazaroff, Jr.	\$26,550
B.L. Malcolm	\$22,501
David A. Montoya	\$7,707
Walter F. O'Tormey	\$29,090
Robert L. Otto	\$43,439
Anthony M. Pajunas	\$27,188
David M. Patterson	\$12,092
Robert J. Pedersen	\$755
Susan M. Plonkey	\$22,919
John E. Potter	\$72,230
Tom A. Samra	\$14,271
David L. Solomon	\$19,754
Douglas A. Tulino	\$29,090
Gloria E. Tyson	\$17,843
Anthony J. Vegliante	\$72,230
Paul E. Vogel	\$57,034
Harold G. Walker	\$62,964
Jerry W. Whalen	\$18,065
Terry J. Wilson	\$25,151
George W. Wright	\$3,824

Benefits

Postal career employees enjoy excellent benefits, including annual and sick leave, the opportunity to donate leave, basic life insurance paid for by the Postal Service with additional options at the employee's cost, pretax health benefits with most of the cost paid by the Postal Service, pretax Flexible Spending Accounts for out-of-pocket dependent care and health care expenses, the option to enroll in pretax dental and vision insurance, the opportunity to apply for long-term care insurance, and coverage under the Federal Employees Retirement System (FERS) or Civil Service Retirement System (CSRS)



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plans, which provide pension benefits and include Postal Service contributions to the Thrift Savings Plan (TSP) for FERS employees. Participation rates and employer costs may be found in the *2008 Annual Report*.

During 2007, agreements were achieved through the collective bargaining process and through consultation with the management associations to reduce the Postal Service's share of contributions to the cost of health benefits premiums for its employees. Reductions began in January 2008 for employees represented by the American Postal Workers Union and National Postal Mail Handlers Union and for EAS employees. Reductions begin in January 2009 for employees represented by the National Association of Letter Carriers, the National Rural Letter Carriers' Association, and the Fraternal Order of Police.

Injury Compensation

The Postal Service continues to work closely with the Office of Workers' Compensation Programs (OWCP) to place injured employees who cannot be accommodated within the Postal Service into private sector employment. These efforts have resulted in private sector placements, employee retirements, or reductions in compensation payments for 271 former employees. Since the inception of the Vocational Rehabilitation Process in 2003, compensation costs have been reduced by more than \$26.5 million annually.

This year the Postal Service saw an increase of 6 percent in workers' compensation chargeback expenses from the Department of Labor OWCP despite continued decreases in illness, injuries, and accidents. The cash payout totaled over \$1 billion.

In an effort to reduce workers' compensation medical costs, the Postal Service continued two initiatives: the Pharmacy Card Program and the Medical Cost Management Initiative. The Pharmacy Card Program results in discounted prescription prices for the Postal Service and avoids employees paying out-of-pocket expenses and waiting for reimbursements. A savings of \$5.6 million was achieved. The Medical Cost Management Initiative was launched in 2005 to identify and recover medical overpayments made to providers. Since the start of the program, OWCP began contracting with an outside company to process medical invoices. This change resulted in a decrease in duplicate payments, but an increase in systemic issues creating overpayments to providers. Working in collaboration with OWCP to correct the issues has resulted in a cost avoidance of \$3.5 million per year. Monetary gain from pursuit of third-party claims and overpayments are credited to the

Postal Service by OWCP. Ongoing efforts with the Credit Recovery program attained \$40.5 million as of August.

The National Reassessment Process (NRP) is a key initiative that reviews the status of employees in rehabilitation and limited-duty assignments at the end of each year. The process ensures that every evaluated employee is placed in an appropriate and necessary work position. NRP was successful in three pilot sites — New York Metro, San Diego, and Western New York — with an additional 53 sites now implementing this initiative. The number of employees in rehabilitation and limited duty assignments was reduced to 31,044, resulting in cost-savings of \$146 million this year.

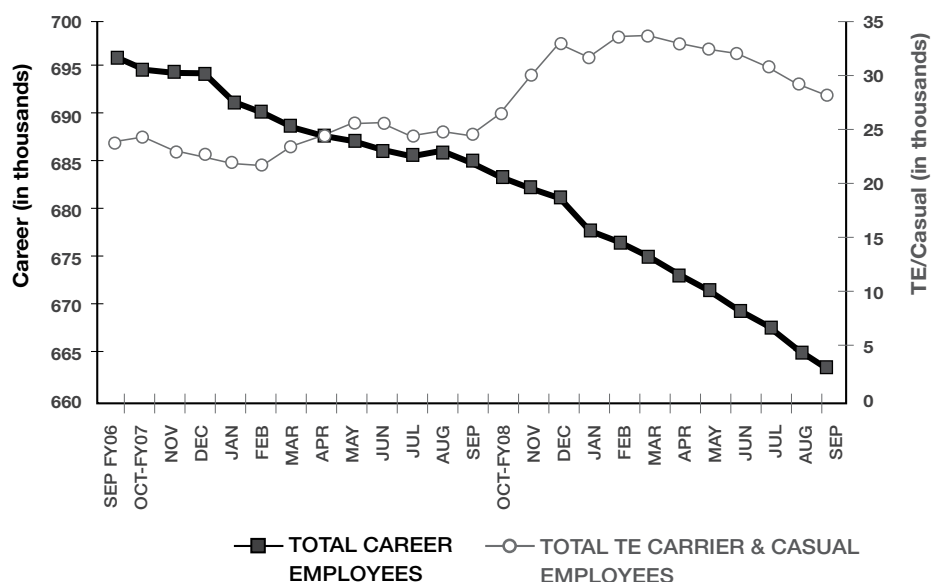
Labor Relations

Collective Bargaining and Consultation

The Postal Service has nine collective bargaining agreements with seven unions covering career employees. Negotiations with unions cover wages, many benefits, and conditions of employment. Negotiated agreements are in place with three of its four largest unions: the American Postal Workers Union, AFL-CIO (APWU), the National Postal Mail Handlers Union (NPMHU), the National Association of Letter Carriers, AFL-CIO (NALC), and two smaller bargaining units covered by the APWU: the Information Technology and Accounting Service Center, representing information technology and accounting employees at the Accounting Service Centers; and the Operating Services Division, covering maintenance employees primarily at Headquarters. The Postal Service also has a negotiated agreement with the International Association of Machinists, covering a small number of tool and die workers. Negotiations are ongoing with the National Postal Professional Nurses, who are affiliated with

Career vs. Transitional Employee (TE) Carrier and Casual Trend End of FY06 to End of FY08

Source: NORPES (Not included: Christmas casuels, Rural Route reliefs Duals and REC TEs)



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the APWU. Pursuant to an interest arbitration award, a contract was established with the National Rural Letter Carriers' Association (NRLCA) in December 2007. A new contract was established with the Fraternal Order of Police by an interest arbitration award in April 2008.

The Postal Service and the NALC continued joint contract application training and dispute resolution process support by delivering training to 130 Postal Service and NALC representatives responsible for addressing and resolving disputes locally. The training has been instrumental in reducing disputes and improving relationships. The Postal Service and NALC also have jointly developed an intervention process that has been widely implemented to identify and resolve root causes of disputes at the lowest level possible, helping build more cooperative and productive labor-management relationships.

The Postal Service and NPMHU co-hosted the 11th annual Quality of Work Life Conference in September. Over 48 teams shared their ideas and over 47 teams displayed models of their solutions in the Resource Mart. All teams showed the type of initiative and creativity that continues to make our organization more efficient and effective. Six teams were distinguished for their outstanding projects and performances.

As prescribed by law, program consultation was conducted throughout the year with the national officers and representatives of the National League of Postmasters (League), the National Association of Postmasters of the United States (NAPUS), and the National Association of Postal Supervisors (NAPS). This process presented an opportunity for the associations to participate directly in the planning, development, and implementation of programs and policies affecting approximately 65,000 managerial employees.

Complement Management

Total Postal Service employee complement decreased by 20,841 in 2008. At the end of the year, 765,088 career and non-career employees were on the rolls. Of this number, 663,238 are career employees. Career complement decreased by 21,524. Complement mix changed significantly with the addition of 13,100 carrier transitional employees. These were added in preparation for the implementation of flats sequencing. Overtime, sick leave, higher-level, and standby hours were also reduced. It is notable that these complement and workhour reductions were achieved as service scores increased and Voice of the Employee scores remained at high levels.

Achieving an optimal staffing mix of career and non-career employees is essential to the Postal Service meeting its goals of service reliability and financial stability. Changes in mail volume, mail mix, technology, and mailer behavior require optimal use of the flexible, non-career workforce, and may also require reassignment of career employees. Complement management provides managers

with a suite of critical planning and tracking tools to accomplish this. The Complement Information System (webCOINS) program is now the primary field tool for complement information, and has a user base of more than 29,000. The Corporate Complement Management System (webCCM) provides a contractually-correct means to reassign bargaining unit employees. Rapidly changing business conditions and mail volume changes are resulting in significant growth in the use of webCCM, and field training and support is continuing. Business rules for the addition of maintenance, motor vehicle, and rural carrier crafts components will be included in fiscal year 2009.

PostalPEOPLE

The Human Capital Enterprise (HCE) and Human Resources Shared Services (HRSS) initiative continues to evolve, providing employees with important human resources' service improvements. In 2008, the Postal Service reached a major milestone with the national implementation of a shared services environment that:

- Provides self-service for employees and managers to conduct personnel and HR activities online with access 24 hours a day, seven days a week.
- Leverages technological advances and business partnerships to provide a new technology platform, the Human Capital Enterprise System (HCES).
- Transforms HR by automating, standardizing, and centralizing business processes.

The services provided by the HCE/HRSS are supported by the Human Resources Shared Service Center (HRSSC). In 2008, the HRSSC processed over 1.1 million personnel actions, 9,000 EAS job vacancies, over 83,000 bargaining unit job postings and awards, and almost 22,000 retirements. All districts, areas, and Headquarters are now serviced by the HRSSC, which handles an average of 3,000 calls each day.

Two key components of the HCE/HRSS initiative were implemented this year: *eCareer* and electronic Official Personnel File (eOPF). *eCareer*, the online job application and selection system used for hiring and promotion activities in the Postal Service, reduces the time between posting and selection while improving employee flexibility and ease of use. In addition to making the application process easier, *eCareer* makes the entire selection process quicker and more convenient, from posting vacancies, through assessments, to selection. It adds value by automating and streamlining processes, eliminating manual paper handling, and realizing significant savings in time and resources. And, with the implementation of the eOPF, employees now have instant, convenient, and secure access to their personal and work information 24 hours a day, 7 days a week.

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Workplace Environment

Safety

The Postal Service made continued safety improvements in 2008. The Occupational Safety and Health Administration's (OSHA) injury and illness frequency rate for the Postal Service was 5.4 per 100 employees this year. This equates to 3,324 fewer employee injuries and illnesses when compared with 2007. The motor vehicle accident frequency rate was 9.52 per million miles. This is a 2.76 percent improvement from last year and equates to 396 fewer motor vehicle accidents.

Efforts to raise employee awareness on avoiding injury and illness included safety talks, publications, and videos, including the award-winning Safety Depends on Me video campaign. A public service video was launched to raise awareness of safety around our delivery vehicles.

The new Employee Health and Safety module for reporting and managing occupational accidents, injuries, and illnesses is being integrated into the Human Capital Enterprise System. The new system will provide injury case management tools to health and resource management specialists to manage their caseloads more efficiently. A pilot of the system began in October 2008 in the Massachusetts District.

VOLUNTARY PROTECTION PROGRAMS

The Postal Service was the first federal agency and second corporate entity to be approved into OSHA's Voluntary Protection Programs (VPP) which recognizes facilities that have implemented best safety programs. To date, OSHA has approved a total of 167 Postal Service worksites for VPP participation, more than any private industry corporation and all federal agencies combined. In 2008, 42 additional facilities were recommended. On average, VPP sites post OSHA injury and illness reductions that are 12 percent better than non-VPP facilities.

ERGONOMIC RISK REDUCTION PROCESS

The Ergonomic Risk Reduction Process (ERRP) reduces both the number and severity of musculoskeletal disorders, builds labor/management teams with ergonomic skills, and cultivates partnerships to identify and control ergonomic risk. These partnerships include the Postal Service, OSHA, the National Postal Mail Handlers Union, and the American Postal Workers Union. To date, 175 plants and 8 customer service districts have implemented the ERRP process. Since inception of the process in 2003, over 133,000 employees have received ERRP training; ERRP teams have analyzed and resolved 14,819 tasks; and 8,481 employee-submitted solutions (reducing handling and lifting injuries) have been implemented. ERRP sites that have been involved in the process

for at least 12 months experienced a 13.2 percent reduction in musculoskeletal disorders this year.

Equal Employment Opportunity

In 2008, the Postal Service held training for supervisors and managers on the importance of equal employment opportunity, open communication, and the benefits of resolving complaints at the lowest possible level. This year, 18,292 informal complaints were processed, with 99 percent closed within regulatory timeframes.

The Postal Service's goal is to provide high quality and timely complaint processing in accordance with EEOC regulations. The National EEO Investigative Services Office (NEEOISO) completed 99.58 percent of all investigations within the 180-day timeframe, and processed 40,074 requests for EEO counseling. NEEOISO completed 98.5 percent of Final Agency Decisions within 35 days from receipt. The Notice of Final Action process was completed within 25 days of receipt 95.1 percent of the time. Letters of Acceptance or Dismissal were mailed 98.67 percent of the time within the 35-day time allowance. Contract investigators and final agency decision writers were used to help maintain the neutrality of the investigative and decision process.

NEEOISO has consistently attained high scores in the completion of EEO cases, and is now providing services to 12 other federal agencies on a fee-for-service basis.

An Ethnicity and Race survey was conducted to comply with the EEOC's requirement to report revised demographic information. Employees were asked to self-identify whether they are Hispanic or Latino then select the race or races with which they identify. The overall survey response rate was 59 percent.

Employee Assistance Program

The Postal Service Employee Assistance Program (EAP) provides employees and family members with free voluntary, confidential counseling from licensed professionals. Counselors are available 24 hours a day, 7 days a week, in convenient locations to help with difficulties that affect employees' lives and work. Issues typically include emotional, financial, legal, chemical dependency, marital, and family matters. In 2008, 55,000 employees and family members received counseling.

EAP also provides consultation to managers and supervisors on issues not only involving individual workers, but also their work environment. Ongoing preventive efforts, such as manager coaching and educational seminars on communication and stress management, help employees at all levels manage difficult situations. EAP provides key support after critical incidents such as natural disasters, workplace and community violence, and unexpected death. EAP also provided services to many employees and family

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members following the Midwest flooding, the California wildfires, and Hurricanes Dolly, Gustav, Hannah, and Ike.

Violence Prevention and Crisis Management

The Workplace Environment Advisory Committee is composed of representatives of Postal Service Human Resources, unions, and management associations. Working closely with the Postal Inspection Service and EAP/Workplace Environment Improvement (WEI), this committee uses a standard protocol to identify and address undesirable behavior that results from individual or systemic problems. The EAP/WEI help field offices by ensuring that local threat assessment and crisis management teams are in place and training is provided. These teams respond to potential threats and crises to help bring about a swift resolution and ensure the utmost employee safety.

In August, the threat assessment team process was revised to include self-audit tools designed to ensure compliance with postal policies and procedures.

National Workplace Harassment Prevention

The Postal Service is committed to providing a safe, productive, and inclusive workplace; it will not tolerate harassment of any type and holds managers responsible for preventing it. Awareness is key to ensuring a workplace free of unlawful and inappropriate conduct. This year the Postal Service continued to provide Workplace Harassment Fact Finding training to new fact finders. 160 new fact finders completed the first step in the certification process. In addition, 61 experienced fact finders were provided training to ensure compliance with the new procedure on reporting and investigating harassment complaints.

Employee Communications and Outreach Voice of the Employee

Every quarter, one-fourth of career employees receive the Postal Service's Voice of the Employee (VOE) survey at their work location. Participation is voluntary and employees are given time on the clock to complete the survey. The surveys are then sealed in postage-paid envelopes and mailed to the contractor for data analysis and quarterly reporting. No one from the Postal Service sees or is provided individual responses. Six of the questions are used as key indicators of workplace factors that can impact employee performance and business outcomes. Survey results help identify organizational issues and establish improvement strategies. For 2008, the national employee response rate was 61 percent. The national index score was 63.7 percent favorable, up slightly from 63.5 percent. Beginning with fiscal year 2009, the survey was redesigned and now contains specific questions to assess employee engagement and affinity with the Postal Service. Employee

engagement fosters genuine commitment to the success of the individual and the organization.

Employee Communications

Keeping employees informed about postal business developments is essential. This year employee communications continued to focus on raising awareness of the impacts of the Postal Act of 2006 and the many changes taking place in the market for mailing and shipping services.

The goal of employee communications is a well-informed workforce, fully engaged in meeting the needs of postal customers and helping the business grow. A comprehensive campaign explained new product features, pricing, and customer convenience options. Employee communications also included regular updates on important strategic programs — such as Intelligent Mail® and the Flats Sequencing System — and timely updates about the effects of the economy on mail volume and revenue.



The Postal Service launched "I am the 'I' in shipping," a video series that focuses on the role of each employee in building market share for shipping services.

Employee communications vehicles include print and online newsletters, on-demand videos, digital signage, daily service talks, quick reference cards, and new intranet applications that allow employees to easily obtain and share information. The Postal Service will continue to use traditional communications media while introducing new tools to improve outreach and effectiveness, and improve the ability of employees to provide input and feedback.

Community Involvement

Postal Service employees are committed to being good neighbors in the communities they serve, as shown by their efforts to help those in need.

HAVE YOU SEEN ME PROGRAM

Since 1985, the Postal Service has worked in partnership with the National Center for Missing and Exploited Children and Valassis, formerly ADVO, to reunite families with missing children through *America's Looking For Its Missing Children* program — recognized as one of the nation's most effective public service initiatives.

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Valassis publishes the weekly *RedPlum* circular that showcases color “Have You Seen Me?” photos of missing children and their alleged abductors. As a direct result of leads generated by the program, 148 children have been safely recovered. Additional information is available at www.missingkids.com.

COMBINED FEDERAL CAMPAIGN

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. In the 2007 campaign that ended in fiscal year 2008, employees pledged \$37.2 million to charities of their choice.

POSTAL EMPLOYEES RELIEF FUND

The Postal Employees Relief Fund (PERF) is a humanitarian effort administered jointly by the Postal Service and the unions and management associations. PERF is supported financially by postal employees primarily through the payroll deduction program of the Combined Federal Campaign. Since its inception in 1990, PERF has assisted more than 4,500 employees and provided approximately \$15 million in humanitarian grants. PERF continues to serve a vital role in the recovery effort for employees living and working in all parts of the country. PERF provided valuable support and financial assistance to postal employees and their families throughout the country who experienced damage from house fires as well as property loss resulting from floods, hurricanes, and tornadoes.

MARROW DONOR PROGRAM

Since 1997, the Postal Service has collaborated with the Marrow Foundation to build awareness of the National Marrow Donor Program (NMDP) — especially among African Americans and other minorities — and help increase the number and diversity of potential donor volunteers on the Registry. Through the Postal Service’s *Delivering the Gift of Life* campaign, more than 42,000 postal employees have joined the registry and 75 have made life-saving marrow donations.

ANNUAL FOOD DRIVE

On May 10, thousands of carriers and other employees in more than 10,000 cities and towns across America collected, processed, and delivered non-perishable food donated by customers. More than 120 million postcards were mailed to customers letting them know about the event — the world’s largest annual one-day food drive. Now in its 16th year, the drive has provided over 900 million pounds of food to the hungry. This year’s drive collected 73.1 million pounds for the needy from customers. Long-time supporters of the drive included the Postal Service, Campbell Soup Company, America’s Second Harvest, local United Way affiliates throughout America, Valpak Direct Marketing Systems, the AFL-CIO Community Services

Network, and cartoonist Bill Keane, who provides special *Family Circus* artwork for the promotion each year.

CARRIER ALERT

The Carrier Alert Program recognizes that carriers can help monitor the well-being of elderly and disabled customers. A local sponsoring agency notifies the Post Office of persons who want to participate in the service and a decal is placed in their mailbox. Carriers will then be alert to an accumulation of mail that might signify an accident or illness, and notify appropriate officials.



Beverly Dalton, Team USPS captain and longtime breast cancer survivor, holds a Breast Cancer Research stamp poster with 1,316 colleagues and friends who ran with her in the Susan G. Komen Breast Cancer Foundation’s “Race for the Cure” in Newport Beach, CA. They were the largest team there. Employees have formed a team to run in the event each year since the Breast Cancer Research semipostal stamp debuted in 1998.



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Total Mail Visibility

INTELLIGENT MAIL

For more than 20 years, barcodes have been at the core of advances in Postal Service quality and efficiency. Automated mail processing, driven by barcodes, has allowed the Postal Service to reduce costs as it delivered more rapid, reliable, and consistent service. With the introduction of the Intelligent Mail® barcode, the Postal Service and its customers began the next step in automation — the transition to Intelligent Mail (IM) — a comprehensive term that describes the integration of electronic mailing documentation, data-rich barcodes on mail and containers, and in-process scans to track mail from origin to destination. Mail with IM barcodes can be tracked throughout the system, creating new opportunities to improve service consistency, efficiency, and customer value.

After months of working closely with the mailing industry, technical requirements for IM were published in August. Mailers have been able to use IM barcodes since September 2006 and can choose between POSTNET and IM barcodes until May 2011, when the POSTNET barcode may no longer be used. Beginning in May 2009, mailers can choose between two IM options — Basic and Full Service. Under the Basic option, mailers will only need to use non-unique IM barcodes on their mailpieces. For Full Service IM, mailers must use unique IM barcodes on each mailpiece, submit postage statement and mailing documentation electronically, if required, and use IM tray and container labels. The IM barcode price structure will be announced as part of the May 2009 price changes and will include separate pricing for Basic and Full Service. Price adjustments will take effect in Fall 2009. In order to qualify for the lowest automation-based prices, mail will have to bear IM barcodes after Fall 2009.

Use of IM barcodes has grown rapidly during the current pilot phase. Simplified mail acceptance processes using IM barcodes are being tested with First-Class Mail and Standard Mail pilots. IM barcode scans captured during processing of Business Reply Mail are being explored to speed up Automated Business Reply accounting. An increasing percentage of postage meters are now producing Information-Based Indicia (IBI), which can be used for IM services. IM volume grew from approximately 30 million pieces per week in October 2007 to 300 million pieces per week by September 2008. By the end of the year, over 580 mailers had begun using the IM barcode and OneCode Services, including OneCode CONFIRM and OneCode ACS (Address Change Service), and are seeing improved data control that enhances their address hygiene and barcode quality efforts. Nearly 4,800 mailers have been assigned one or more generic mailer IDs for automation mailings. Large mailers have begun to discuss their transition to IM and its benefits in multiple venues — at the National Postal Forum, Mailers' Technical Advisory Committee, IM seminars, and in the industry press.

Focus is now turning to building awareness of IM changes among mid-size and small mailers. Training and support material on the benefits and implementation of IM was developed for postal employees who are directly involved with customers, including sales and business mail entry personnel. MTAC joined in the awareness campaign, which included sessions at the NPF, Web site guidelines, and Q&As about the use of IM barcodes and electronic documentation. The Postal Service and Postal Customer Councils (PCCs) co-sponsored four national symposia where over 1,600 attendees heard from mailers about their IM implementation experiences and how the conversion is driving improvements in service and efficiency and adding value to their business. Additionally, PCCs across the country have conducted IM workshops reaching more than 13,000 mailers.

INTELLIGENT MAIL INFRASTRUCTURE

The ability to perform passive in-process scans on letter and flat automation equipment is already in place. Handheld scanners have been deployed and are being modified to capture barcodes on pallets, trays, and trucks. The remaining integration of data from these systems will be complete this year.

Surface Visibility

ENHANCING TRANSPORTATION VISIBILITY

Surface Visibility describes the integration of multiple systems used to track mail transported within the postal network. Surface Visibility was originally designed to improve postal transportation, but was expanded to benefit the larger mailing community by making the entire mail value chain more transparent. Mail container barcodes are scanned as containers arrive or are unloaded at postal facilities. Quality controls embedded in the system reduce misdirected and misdelivered mail. Data is also integrated with the Facility Access and Shipment Tracking (FAST) system, which mailers use to provide advance notification of drop shipment mailings. The Surface Visibility scans verify acceptance and link containers to the mailer's electronic manifest. This information gives mailers new visibility and improves accountability for contractors who print, prepare, and transport their mail to the Postal Service.

FACILITY ACCESS AND SHIPMENT TRACKING SYSTEM

In addition to providing visibility, the FAST system provides customers with a means to schedule destination entry of Periodicals, Standard Mail, and Package Services. Customers and postal managers both benefit from the increased visibility. With the Postal Service's complementary Mailer Rating program, customers who provide advance notification and arrive at the scheduled time with the amount of mail shown on their appointment will have improved access. The FAST system continues to expand and add features. FAST for First-Class Mail is being considered to capture arrival information for origin and postal-verified mail transported by the customer.

Chapter 4 Our Operations

Addressing

HIGH-QUALITY ADDRESSING — CURRENT, CORRECT, AND COMPLETE

Undeliverable-as-addressed (UAA) mail must be forwarded, returned to the sender, or treated as waste because addresses are incomplete, incorrect, or out-of-date. UAA mail wastes customer investment in the mail, and the Postal Service's UAA-related costs are over \$1 billion annually. To reduce UAA mail, the Postal Service has implemented procedures to improve the address database, manage address list quality, provide more effective address-quality feedback to mailers, and enhance the change-of-address (COA) process.

REFINING THE ADDRESS DATABASE

The Postal Service relies on a number of tools to improve the quality of the Address Management System (AMS) database. The Address Quality Reporting Tool (AQRT) identifies and prioritizes routes with the best opportunity for operational improvement. Districts performed 103,300 Address Quality Improvement Process reviews based on AQRT prioritized routes. These reviews identified and corrected addressing data on 2 million records in the AMS database in 2008. The Electronic Uncoded Address Resolution Service enables USPS personnel to correct COA records that do not match a delivery point in the AMS database and update addresses mailers submit for address corrections. This year carriers helped correct more than 6.7 million addresses.

Another system, Delivery Sortation Management Automation Research Tool (DSMART), identifies addresses that receive mail but are not in the AMS database and cannot be sorted into delivery point sequence (DPS). DSMART Business Names module provides the ability for delivery unit personnel to enter a business name which links those business names with the appropriate suite address so the mail can be sequenced on automation equipment. Delivery managers have entered 1.6 million business names. The Postal Service has developed a commercial version of this business names database called Suite^{Link}. During 2008 mailers used this product to update 103 million addresses.

IMPROVING ADDRESS LIST QUALITY

The Postal Service and mailing industry have continued to improve procedures and tools for validating and updating address lists. Best practices for updating addresses include using pre-mailing tools like Coding Accuracy Support System (CASS) certification, NCOA^{Link} processing, Move Update standards, and post-mailing tools such as ACS and the new OneCode ACS.

Working together, industry and Postal experts have upgraded CASS processing software to enable mailers to improve the accuracy of addressing and sorting data in mailing lists. Enhancements include Delivery Point Validation, a process that ensures that addresses

exist in the AMS database. This change dramatically improved automation compatibility, especially barcoding at the delivery point level. Customers can correct non-validated addresses using Address Element Correction (AEC) software. Mailer usage increased 18 percent for AEC II, an enhancement to AEC software service that sends unresolved addresses to delivery offices for resolution. The next cycle of CASS updates, due in August 2009, will include Suite^{Link}, which adds secondary (suite) numbers to business delivery points to facilitate delivery point sequencing, and tables identifying addresses that do not yet receive postal delivery, and vacant addresses. Use of these tables to suppress addresses with no residents can reduce UAA mail and save mailing costs.

The NCOA^{Link} product makes COA information available to mailers to help reduce undeliverable mailpieces before mail enters the mailstream. The NCOA^{Link} processing allows mailers to match their mailing list data against postal-maintained change-of-address data. If a match is made with the name and old address information in the NCOA^{Link} file during the processing, the software provides the current move information (new address or undeliverable status) to update the mailing list. The number of addresses processed by NCOA^{Link} increased 15.5 percent over the prior year.

The Postal Service took an additional step to reduce UAA mail with new Move Update standards that took effect in November 2008. The changes increased the minimum frequency of Move Update processing from 185 calendar days to 95 days prior to the date of mailing and extended the Move Update standards to include all Standard Mail in addition to automation-rate and presort-rate First-Class Mail. The Move Update standards provide several options for customers including NCOA^{LINK}, *FASTforward* (a commercial MLOCR software application), Address Change Service (ACS) and OneCode ACS, and ancillary service endorsements without ACS. Mailers, who rely on ACS and OneCode ACS, or ancillary service endorsements without ACS, must incorporate the address changes received within no more than 95 days prior to subsequent mailings at discounted postage prices.

To get updated address data for mailed pieces that are UAA, mailers can use traditional ACS and OneCode ACS, a process that utilizes in-process Intelligent Mail[®] scanning data. These programs provided 239 million notifications to mailers in 2008. Use of these programs increased by 11 percent, largely driven by use of OneCode ACS as mailers prepare for Intelligent Mail implementation.



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MANAGING CHANGE-OF-ADDRESS DATA

Each year customers submit approximately 46 million COA requests to the Postal Service. With a strategic alliance partner, Imagitas, the Postal Service introduced several improvements to make the process more convenient and efficient. Internet and telephone COA options, introduced in 2001 and 2004, are promoted over hardcopy forms because they are more convenient for movers and they allow instantaneous validation of the address information. New promotions during 2008, such as an Internet Change of Address Information Kit and a program engaging realtors, helped to increase electronic COAs 20 percent, to more than 7.9 million, or 17 percent of total COA requests. The Postal Service's goal is to increase that to 12 million by 2010. The Postal Service has encouraged mailers to use electronic COA procedures that validate address data they receive from their customers.

Mail Preparation

COMBINED MAILINGS

The Postal Service works closely with mailers to optimize mail preparation and improve efficiency and service. To increase the density of flats in a mailing, the Postal Service is testing new standards allowing both Periodicals and Standard Mail flats within bundles and on pallets. To increase density for parcels, a new option was added to allow mailers to combine Parcel Select, Package Services, and Standard Mail parcels in sacks and pallets. Combined mailings help mailers achieve finer presort and drop-ship volumes to maximize postage and transportation savings.

BUNDLE PREPARATION

New standards were added to require mailers to place presort bundles on pallets with all addresses facing up to improve bundle distribution and reduce manual handling. Two new pressure-sensitive bundle labels allow mailers to identify 3- and 5-digit ZIP Code bundles with an optional endorsement line or a pre-printed, barcoded label. Optional standards encourage mailers to place Periodicals flats loose in flats trays when bundling would not produce a finer sort.

FLAT MAIL

New standards developed with the mailing industry now standardize address placement on flat mail. Starting March 2009, mailers will position delivery addresses toward the top of most presorted and automation flats, a change that facilitates automated sortation in delivery point sequence.

The Postal Service began the development of preparation standards for flats in a Flats Sequencing System (FSS) environment, working with the mailing industry to align entry, preparation, and induction with FSS capabilities. The Postal Service goal is achieving lowest combined costs — both postal processing and mailer costs. In recognition of the fact that FSS could result in the addition of new entry points for some drop shippers, where space allows the Postal

Service will co-locate FSS with bundle sorting and other flat sorting equipment. This will allow most flat mail for a geographic area to be drop-shipped at one facility. While this will not always be feasible, some facilities will no longer serve as drop points for destination entry flats, as processing at these facilities will be absorbed by larger FSS sites.

LETTER MAIL

Together, the Postal Service and the mailing industry are exploring ways to ensure that letter-size booklets and folded self-mailers process properly on automation equipment, allowing mailers to continue to take advantage of letter-based prices. These pieces have frequently jammed high-speed sortation equipment or become significantly damaged in the process. Tests are now being conducted, using mailer-supplied and manufactured mailpieces, to create revised standards for this mail. The new standards will more accurately prescribe the size, thickness, paper stock, and tabbing required for successful mailing.

Acceptance

Price Change Preparation and Implementation

Implementation of the May change in prices was successfully executed, despite the fact this was the first conducted under new rules and procedures established by the Postal Act of 2006. Online services on *usps.com* and on partner sites such as eBay were updated with the prices and enhancements. Dedicated areas within *usps.com* gave easy access to information that previous changes had indicated would draw the most customer traffic. All postal software was updated with the new prices and was ready for business well in advance of the change.

READINESS OF APPLICATIONS, SYSTEMS, AND WEB SITES

More than 50 applications and systems, including Postal Explorer, *PostalOne!*, rate calculators, Click-N-Ship, the Automated Postal Center (APC) kiosk, and POS One Post Office retail terminals required updating with the new prices and other changes. To help customers, the *usps.com/prices* Web site provided a comprehensive overview of the price and product changes. The *usps.com* main page featured the new prices prominently and provided quick and easy access to key mailing and shipping guidelines. Downloadable price files, mailing standards, and links to *Federal Register* notices and PRC documents were also posted.

COMMUNICATIONS AND PUBLICATIONS

To support the communications rollout, the Postal Service produced a field information kit in the *Postal Bulletin*, including details of the changes, talking points, and other material to prepare postal employees for the changes and ensure that they had ready access to any information needed to respond to customers. Webcasts were

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part of outreach activities for the software vendor community, and presentations and briefing materials were posted online for Postal Customer Councils. The *Domestic Mail Manual*, *International Mail Manual*, and all related documents were revised and posted on *usps.com*. Presentations were provided to the Technical Speakers' Bureau, rate implementation coordinators, Business Service Network, and many other customer and mailing industry groups.

TOOLS AND RESOURCES

The customer-friendly online *Postal Explorer* with all related materials including rate calculators, quick service guides, and postage statements was updated and simplified this year. The Postal Service also updated the *First-Class Mail Shape-Based Pricing Template*, a tool to help postal employees and customers apply shape-based pricing standards for First-Class Mail. The principal change was the addition of First-Class Mail International.

Commercial Mail Acceptance

Commercial mail acceptance is becoming simpler and more efficient, thanks to improved information sharing between customers and the Postal Service. The goal is to streamline all aspects of acceptance, verification, payment, and induction. Keys to achieving this goal are the expansion of electronic documentation and use of IM barcodes on mail and containers (trays, sacks, and pallets). Information obtained about mailings in process helps verify mail and address quality, validate that the correct postage has been paid, and track individual pieces as they move through the system. The new procedures bring additional benefits. The Postal Service receives advance knowledge of mailings which improves scheduling. An extensive communications plan is being executed to ensure the mailing industry as well as USPS employees are ready for these sweeping changes.

In preparation for IM implementation, various mailers have been participating in tests of improved acceptance and performance-based verification procedures. The testing validated electronic mailing documentation, verified mail preparation and postage payment, and tracked the induction and processing of both letter and flat-shaped mail. Container scans were used to capture induction events and evaluate additional visibility points. The tests included mailers entering billions of pieces from sites across the country. The conversion to new acceptance procedures will start early in fiscal year 2009.

PostalOne!

The *PostalOne!* system is the foundation of the new acceptance procedures, and continues to be upgraded with new features. Key enhancements included changes to recognize the IM barcode when submitted in Mail.dat file versions 08-01 and 08-02.

The *PostalOne!* Postage Statement Wizard (PSW) is an Internet-based tool that gives small-volume mailers a secure electronic means for submitting postage statements and simplifies calculating

postage, checking balances and fees, and viewing mailing reports and mailing histories. PSW had 5,184 customers enroll this year. They presented 459,672 electronic postage statements for 2.9 billion mailpieces, with revenue of \$852.9 million. Use of PSW continues to grow at a rapid rate. Larger-volume mailers transmitted 112,925 statements using the Mail.dat option. An additional 4,915 online statements were submitted using Web Services. These options accounted for a volume of 15.5 billion mailpieces and revenues of \$3.8 billion. Electronic documentation provided through these two options will be required for customers to qualify for the IM Full Service option.

The Postal Service continued to encourage customers to use the centralized payment capability of the *PostalOne!* system. Centralized payment allows mailers to conveniently fund multiple mailing accounts through a single payment process. Links between the Post Office Point of Service (POS) system and *PostalOne!* add more convenient options for commercial mailers. This year 1,950 Centralized Account Payment System (CAPS) accounts were added along with 12,816 additional permit accounts. A total of \$22.5 billion in revenue was processed through centralized payment.

Electronic Verification System (eVS)

The Electronic Verification System (eVS) allows parcel mailers to submit documentation and pay postage by transmitting electronic manifest files to the eVS database, which is part of the *PostalOne!* system. Integrating with other systems and business processes for data collection and performance measurement, eVS makes it easy for customers to prepare and induct parcel mailings, streamlining their internal business processes as well as those with the Postal Service. eVS is similar to existing manifest mailing processes, with two distinct differences: sampling and monthly data reconciliation. eVS samples mailings after parcels are deposited at a destination or origin facility (depending on the mail class) to capture data used to monitor postage and preparation accuracy. Each month eVS sampling data for each mailing is reconciled against all manifests received during the month. Under eVS, paperwork is replaced by electronic documentation and mail entry is more convenient. Parcel mailers control their shipments from preparation to deposit at the entry facility and can monitor sampling results and the quality of their mailings online via the eVS Web site.

The Postal Service now has nine eVS customers, including two new customers added during 2008. They accounted for 123.2 million packages, a 46 percent increase. eVS revenue increased to \$232.4 million, up 65 percent.

Access

Our retail network has more than 36,000 Post Offices, stations, and branches supplemented by thousands of retail partners. Every day, over 9 million people visit Post Offices to buy stamps, mail packages, or collect mail from Post Office Boxes. Customers can also access services without leaving their home or office using the Postal

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Instead of paying airline baggage fees, this Delaware college student uses an Automated Postal Center and a Priority Mail Large Flat Rate Box to ship items home.

Service's Web site, *usps.com*, and services provided by their carrier, such as free package pickup.

POST OFFICES

Local Post Offices offer convenient retail access to mailing and shipping services and provide Post Office Box services to more than 16 million customers. Other services include forwarding mail and acceptance of passport applications. The principal users of retail services are low-volume business mailers and consumers. This year Post Offices and other retail options generated \$18.7 billion, 24 percent of total Postal Service revenue. Approximately \$4.5 billion of this total was generated through alternate access locations such as Automated Postal Centers (APCs), contract postal units, *usps.com*, and from the sale of stamps at commercial outlets. These options supplement the Post Office network by expanding the times and places where customers can obtain service.

RETAIL PARTNERS

Contract postal units offer most postal products and services in supermarkets, card stores and other busy retail outlets. These units are staffed by the host retailer, and most feature evening, weekend, and holiday hours of operation. The APC is a self-service kiosk that gives quick, convenient access to the most common transactions. Most of the 2,500 APCs are available 24 hours a day, 7 days a week in Post Offices.

More than \$1 billion in stamps are sold on consignment at tens of thousands of commercial venues, including many ATMs, drug stores, supermarkets, and convenience stores. Stamps by Mail is a service that allows customers to order stamps, postal cards, and stamped envelopes and have them delivered by mail. Stamps by Mail processed 4.2 million orders this year.

USPS.COM

In September, the Postal Service launched a redesigned *usps.com* aimed at improving customer satisfaction. The new homepage features easier-to-find links to popular products and services, with enhanced graphics that help customers better navigate the site. In 2008, the site received 433 million visits, a 12 percent increase. Before the redesign, the Brookings Institution ranked the site fourth among 61 government agency Web sites, based on effectiveness at using interactive features to engage the public and provide services. In addition, *usps.com* was included in *BtoB Magazine's* list for "The 10 Best Internets for BtoB Customers."

Since 2002, when the Postal Service introduced Click-N-Ship online shipping, there has been continuous growth in the number of users and revenue. Click-N-Ship transactions increased dramatically over 2007. Online customers can use stored addresses to create labels with postage, and then click on a link to schedule a package pickup, saving time and a trip to the Post Office. International mailing was made easier for customers by combining all international products into the Click-N-Ship application. Other Click-N-Ship enhancements include an option to print two-up labels, a large Priority Mail Flat Rate box option, an option for Express Mail Sunday/Holiday delivery, and Express Mail hold for pickup service.

The Postal Store on *usps.com* is the primary online resource for customers to obtain mailing services and shipping supplies. Revenue from the Postal Store experienced a 10 percent increase. The site is responsible for almost 70 percent of shipments from the Stamp Fulfillment Services Center in Kansas City, and for two-thirds of expedited shipping supplies fulfillment. The Postal Store also offers a wide variety of stamps and stamp products.

Customers can now locate and pay for Post Office boxes online. Customers can make a one-time payment or set up automatic payments, which will reduce late payments and unintended box closures.

Also created this year were a new eco-friendly Green "micro site", an easy-to-use consolidated site for the pricing of postal products and services, redesigned sites for Direct Mail and frequently asked questions (FAQs), a



The Postal Service has made it easier for customers to manage their Post Office Box accounts online. Customers go to *usps.com/poboxes* to search for a new box by address or ZIP Code, select the box size and payment term, complete the application and pay with a credit card. Customers can also renew Post Office Boxes at Automated Postal Centers.

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site that simplifies parcel returns, and a site for *Vision 2013*, the five-year strategic plan for 2009-2013 that offers a broad perspective of what it will take for the Postal Service to succeed in the future.

Customers can create professional direct mail pieces using *usps.com*, which saves time and money with addressing, collating, sorting, and posting. Four services include Premium Postcards, Click2Mail, CardStore, and Mover's Postcards. Customers choose a format — postcard, letter, self-mailer, or greeting card — and each mailpiece is personalized, printed, and in the mail the next business day. Customers can also unleash their creativity using Customized Postage, where they can convert their favorite photos into advertising and business logos into real postage.

POSTAGE TECHNOLOGY AND SECURE ELECTRONIC SERVICES

Postage meters and PC Postage services provide a convenient postage payment option, particularly for customers who mail frequently. These services now integrate options such as insurance and Delivery Confirmation with postage payment, and make it even easier to print postage labels and account for postage.

The May 12 pricing changes for all products contributed to the growth of PC Postage, with nearly a 40 percent increase in revenue and a 20 percent increase in registered users. PC Postage was also the first postage payment channel to provide customers access to the commercial pricing for Priority Mail and Express Mail services as well as volume rebates for Express Mail.

The postage meter market continued its transition to information-based indicia (IBI) postage. IBI postage meters produce a digital two-dimensional barcode that includes postage payment and other related service information. As of the end of 2008, IBI devices accounted for 68 percent of all meters and produced over 85 percent of meter revenue.

The Postal Service extended its Customized Postage market test for another year. Customized Postage uses PC Postage technology to allow customers to personalize postage by uploading a digital image that can be printed with an IBI. Customers bought nearly 30 million Customized Postage labels this year.

Processing Automation

Service performance and operating efficiency have gained more from the automation of mail processing activities than from any other single factor. Ongoing developments in enhancing and extending the benefits of automated processing present new opportunities to continue to reduce costs and improve service. The most significant current development is the introduction of the Flats Sequencing System (FSS), which will do for flat-shaped mail what delivery

barcode sorter machines have been doing for letter mail the past 15 years — automating the placement of mail into the order in which it is delivered.

LETTER MAIL AUTOMATION

Address recognition rates for letter mail continued to improve as additional equipment and software upgrades were deployed. Three software releases under the Distribution Quality Improvement (DQI) program improved recognition of handwritten and machine-printed addresses, which keeps more letters in the automated mail stream. Phase 2 of DQI will resolve mailing address conflicts further by incorporating additional information from commercially available name and address databases. The Board of Governors approved funding for Phase 2 in September 2008, with the first software release expected in April 2009.

During 2008, 110 new delivery barcode sorter Phase 6 machines and 1,133 stacker modules were installed in plants, increasing capacity for processing letters in delivery point sequence. Letter mail processing equipment has been upgraded to provide IM barcode capabilities and support tracking of inter-facility mail. The new data-rich environment is a significant step forward in letter mail tracking. This year, the Board of Governors approved funding to purchase 550 Advanced Facer Cancellor System 200 machines. They will replace older equipment and improve performance by eliminating steps in letter processing.

FLAT MAIL AUTOMATION

Deployment of ink jet canceller modification kits for 230 Automated Flat Sorting Machine (AFSM) 100s located at over 200 sites began in September. These upgrade kits enable the equipment to cancel postage on flat-size envelopes, thereby eliminating other manual and mechanical cancellation steps.

Under the Flat Recognition Improvement Program, an AFSM 100 software release increased read rates by 2 percent and lowered error rates almost 1 percent, resulting in fewer misdirected mailpieces.

FLATS SEQUENCING SYSTEM

Designed to fully automate the sorting of flat mail into carrier walk sequence, the pre-production FSS was put into live operational service at the Dulles plant after initial testing. The first production system began operation in May and has been expanded to 10 delivery units serving 19 different Northern Virginia ZIP Codes. This expansion provides more opportunity to study the impact of FSS on transportation, staging, and distributions to carriers. The first year of FSS operation in Northern Virginia has helped identify opportunities to fine-tune operational planning and methods, as well as the manner in which flat mail is presented by customers. The potential of FSS is evident from experience to date: route adjustments have

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eliminated full-time routes; equipment used by carriers to sort flat mail has been reduced; and excess facility space and vehicles are being redeployed.

Phase 1 of FSS will deploy 100 systems to 32 sites. Preparation for the new system includes equipment relocation and renovation, and expansion in multiple facilities. Space to accommodate FSS equipment is also included in six new facility projects. All construction projects are on schedule with space completed in 16 sites to date. An ergonomic stowage and retrieval system has been designed for delivery vehicles receiving FSS flats, with deployment set for 2009. An FSS optimization effort is underway in Northern Virginia to streamline current operations and reduce manual processing of flat mail. Lean Six Sigma tools are being applied to standardize FSS practices prior to national implementation.

All major FSS milestones are being closely monitored to ensure successful implementation. Area FSS program managers and District FSS coordinators have been established for all Phase 1 sites. Comprehensive hands-on training, known as FSS University, was provided to several hundred key personnel. Online training will be used to continue to provide field training and support. To support ongoing maintenance and training, two FSS units have been installed at the National Center for Employee Development in Norman, OK.

A new initiative, Automating Flat Mail Preparation Technology, is underway to further reduce manual labor costs in support of the flats automated end-to-end strategy. This system lifts flats bundles from pallets, cuts and disposes of strapping, and places the flat mail in trays for direct induction into the AFSM 100s or FSS. A proof-of-concept test was completed in September 2008. Plans are being formulated to develop a production version of the system.

PARCEL AND BUNDLE AUTOMATION

The Automated Package Processing System (APPS) automates package and bundle distribution while providing greater processing capacity using automatic induction, singulation, and address recognition. Additional recognition improvement software is planned for deployment in 2009. The economic viability of purchasing additional APPS equipment is currently under review. In the meantime, existing APPS equipment is being redeployed as needed to optimize capacity; eight systems were redeployed in 2008.

POSTAL AUTOMATED REDIRECTION SYSTEM

The Postal Automated Redirection System (PARS) identifies and redirects forwardable mail during processing, a significant advance over legacy systems that required forwardable mail to be taken "off line" to have new addresses applied. PARS deployment was completed in September 2007 to 283 sites. Given the reduced workload, 16 Computerized Forwarding System (CFS) sites were consolidated this year, reducing the total number of sites from a high of 215 to 96. The volume of mail processed on PARS increased 26

percent, and now stands at more than 2.5 billion pieces each year. The annual savings from PARS reached \$270 million in 2008.

Continuing PARS software enhancements with significantly higher recognition rates and improved system performance will further increase efficiency. The next release is expected in 2009 and should yield another 3 to 5 percent increase in the PARS interception rate.

PARS upgrades to the existing Advanced Facer Cancellor Systems are expected to be completed in December. A pilot study and field test were successfully completed to automate the computer forwarding process by providing for interception and redirection of flat mail. The Flat PARS system uses the AFSM 100 as the base platform. Technical objectives were achieved and work to reduce costs for this proposed program continues.

REMOTE ENCODING SYSTEM

The Remote Encoding System (RES) is a developmental program that replaces the obsolete Image Processing Subsystem. Mail is processed on letter sorting equipment that reads barcodes and addresses electronically. Mail that cannot be read will be processed through RES. It presents images to employees who read the addresses and type in the results, thereby reducing manual handling. The design phase for this next generation of equipment is complete and the program is in the test phase. Field testing and evaluation are scheduled for 2009. A production program is planned for 2010.

MAIL HISTORY TRACKING SYSTEM

The Mail History Tracking System (MHTS) is a Web-based application that assesses if individual mailpieces with identification tags are likely to meet on-time performance targets. The identification tag is tracked from the origin (cancellation) to DPS processing at the destinating plant. This data helps target and correct the root causes that lead to service failures.

The MHTS application provides a proxy for overnight, 2-day and 3-day service for all letters containing an ID tag. This feature also measures service to all ZIP Codes. To prepare for expanded service reporting, MHTS data are being used for diagnostics. This new information helps managers to identify improvement opportunities in areas not previously measured. Efforts are underway to include Mail. dat information provided by the mailer to identify the mailer and serve as a start-the-clock indicator for service measurement.

INTEGRATED DATA SYSTEM

The Integrated Data System (IDS) is the resource for collecting and distributing mailpiece, tray, and container tracking data, as well as status data from all automated processing and material handling equipment within a facility. It allows multiple applications to leverage collected data to better manage equipment performance. The IDS provides the infrastructure for the management of in-process distribution operations, machine performance, and critical

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maintenance events. The data also support CONFIRM, MHTS, and other programs. In April, the Board approved funding for the IDS-National Directory Support System replacement program. This new technology will enhance reliability and increase capacity. Deployment is expected to begin in January 2009 and be completed in July 2009.

MATERIAL HANDLING

The Integrated Dispatch and Receipt (IDR) equipment combines the acquisition of machines for dispatching and receiving operations with integrated tray transport systems to reduce work hours associated with these activities. Deployment of site-specific IDR systems to 211 mail processing plants was completed in August 2007. Over 70 requests for additional IDR equipment have been received and are in development or being deployed. The first contracts have been issued to build 20 additional Automatic Tray Unsleevers (ATUs), and for trayline integration to support these deployments. Preparation is also underway for additional purchases of other IDR equipment, including Enhanced Airline Assignment systems and Automatic Tray Sleevers. This equipment will continue to be available to the field through the existing Field Material Handling process as part of a broad range of material handling and tray system solutions.

Deployment continues for standard tray sorters as well as a new generation of high-speed tray sorters that automate letter tray

sortation at large plants and transportation hubs. Deployment is also underway for Tray Depalletizer and Singulator systems, which automate the handling of palletized trays, loading them into existing tray sorters to increase efficiency.



The Powered Industrial Vehicle Management System (PIVMS) enables safe and efficient management of powered industrial vehicles, such as forklifts and tugs. Significant workhours, equipment, and maintenance costs have been reduced since deployments began three years ago. Contracts have been awarded for a total of 110 sites, with nearly 100 systems in use. Specific emphasis has been placed on realizing workhour savings through active use of the system. A PIV analysis tool will be deployed in 2009 to improve equipment motion and load performance by comparing historical movement and resource utilization data. Development is also nearing completion for "ePIVMS", which will enable national roll-up reporting and performance comparisons.

BIOHAZARD DETECTION EQUIPMENT

The Postal Service uses a fully contained, automated Biohazard Detection System (BDS) to protect against potential contamination.

Initial deployment of BDS equipment was completed in November 2005. BDS Dual-collection (BDS-DC) system conversions began in August 2007 and were completed in August 2008. This conversion allows one BDS cabinet to connect to two Advanced Facer Cancellor System (AFCS) machines, reducing consumable expenses up to 43 percent without sacrificing efficiency or effectiveness.

Standardization and Process Control

Standardization continues to play a major role in improving efficiency and service in all operations and support activities. Process control and lean management efforts have been expanded to target improvement opportunities, document best practices, and replicate success throughout the organization. Lean Six Sigma (LSS) tools, such as value stream mapping, are being used to standardize and simplify processes, remove costs, and eliminate variability. Any activities not clearly adding value are undergoing close scrutiny. One representative example from 2008 was elimination of the process to manually weigh mail in processing. Teams demonstrated that this time-consuming step could be eliminated by relying on automated processing equipment to measure mail volume. As a result of this change, a \$65 million operating expense was eliminated.

New field operations industrial engineers are playing a key role in expanding standardized processes. Over 180 continuous improvement projects have been identified nationwide — in mail acceptance, processing, and transportation. Hundreds of employees have completed the continuous improvement/LSS training, with additional classes planned for 2009.

STAFFING OPTIMIZATION

Several tools are now in use to establish staffing standards for retail operations and provide consistent quality and customer service at Post Offices. Computerized modeling programs such as the Customer Service Staffing Model and Customer Service Variance tool, have helped reduce the use of overtime this year by 28.2 percent and reduce the use of sick leave, by 3.4 percent. Managers are continuing to improve their use of transaction data to better align staffing with changing workload.

A number of staffing optimization systems are now in use to help managers better adjust to workload fluctuations in plants. They include the Mail Processing Variance, Mail Processing Staffing Opportunity Model, and Mail Processing Employee Scheduler. Use of the tools helped raise processing productivity by 7.2 percent. Processing workhours decreased 7.2 percent, while overtime hours decreased by 32.3 percent. The volume of delivery point sequence (DPS) letter mail increased 5.5 percent, to reach 86.9 percent of all letters. All of these improvements were achieved during a period of declining mail volume.

Staffing optimization models are also proving to be effective in delivery operations. Use of the City Delivery Pivoting Opportunity Model helped bring about a 4.1 percent increase in deliveries per

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hour. Overtime use in city delivery operations was reduced by 25.4 percent.

EQUIPMENT OPTIMIZATION

The Run Plan Generator (RPG) is an innovative program for scheduling equipment in plants to increase efficiency and reduce variation. Most plants have now implemented RPG for at least one processing operation. The deployment of version 2.0 of the program in October 2008 will increase the tool's capability to plan for different scenarios while improving overall system integration. A new exception report was created that reflects weekly RPG compliance by side. This report facilitates Area and Headquarters oversight.

The Tray Consolidation Initiative improves the density of First-Class Mail trays and gains cost savings through reductions in unit processing and transportation cost. More than \$5 million in savings were achieved this year. Standardizing and consolidating sort programs and mail flows are vital to this effort. A goal of 12.9 pounds per tray is targeted for next year including all postal generated First-Class Mail assigned to air transportation.

Network Optimization

Changes in customer mailing, fluctuations in volume, and developments in technology require that the Postal Service continuously monitor and adapt its processing and transportation network to achieve optimal performance. In recent years, many segments of total mail volume have changed dramatically. For example, stamped First-Class Mail, which requires a high degree of processing, is down 1.5 percent from 2007. At that same time, the volume of mail presorted by customers or entered at destination facilities has increased as a share of total mail. Ongoing adjustment to such changes is essential to maximize utilization of the network, with the goal of increasing efficiency while maintaining or improving service.

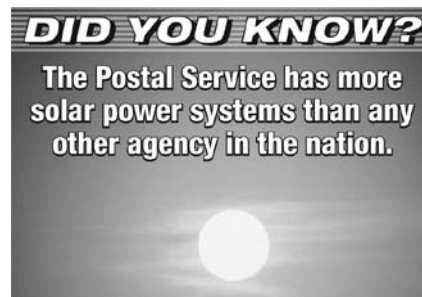
In June 2008, the Postal Service submitted its Network Plan to Congress, highlighting three integrated elements of its optimization effort: Continued closure of airport mail centers (AMCs); consolidation of redundant mail processing operations; and evaluation of alternatives to transform the 35-year-old bulk mail center (BMC) network.

Eleven AMCs were closed in 2008, with operations relocated to other facilities. These closures avoid the unnecessary expense of maintaining facilities on costly airport property. They also reflect a shift of more mail from air to surface transportation, which can substantially reduce cost without compromising service performance.

The second element is the consolidation of outgoing and/or incoming mail processing operations among one or more plants. Consolidation is considered when service objectives can be met and operational efficiency improved. A revised handbook, *Area Mail Processing (AMP) Guidelines*, was issued this year to help evaluate the business

cases for individual projects, support development of feasibility studies and post-implementation reviews, and communicate with the local communities.

A third element of the plan is the evaluation of alternatives to ensure that the Postal Service's Bulk Mail Center (BMC) network remains responsive to evolving needs. Customer use of the postal surface network has declined significantly over time. In the past, most Parcel Post and Standard Mail was deposited at origin and transported by the Postal Service to its destination. However, by 2007, 52 percent of Parcel Post was dropped at the destination delivery units and 45 percent of Standard Mail was dropped at destination processing plants, bypassing BMC processing completely. In 2008, the Postal Service conducted research to better understand industry best practices and capabilities that could help address postal needs for distribution and long-haul surface transportation. The Postal Service is currently evaluating alternatives to leverage these industry best practices within its network.



In other optimization activities, two remote encoding centers (RECs) were consolidated this year, leaving six in operation. Improved addressing and automated scanning capabilities continue to reduce the need for RECs, specialized facilities where operators key in address information, often for illegible or otherwise poorly-addressed mail.

In July, standard "critical entry times" took effect for destination entry Standard Mail, mail that is dropped closer to destination by the mailer or mailer agent. This step was taken to provide more consistency and predictability for mailers while ensuring that postal managers have appropriate processing and transportation resources available to meet demand. Bed-loaded trailers must be entered into the postal system by noon; mail on pallets and other containers must be entered by 4 p.m. Critical entry times for First-Class Mail, Standard Mail, Periodicals, and Package Services are established locally at the Postal Service processing facility.

Transportation

In 2008, the Postal Service spent \$6.96 billion for mail transportation, including terminal dues, transit charges, and other international expenses discussed below. The \$459 million increase over 2007 is primarily the result of rising fuel costs and contractual increases.

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Contract Transportation

AIR TRANSPORTATION

Domestic air transportation costs declined 2.4 percent this year, with reduced mail volumes generally offsetting cost increases related to higher fuel prices. Total air transportation expenses, including international transportation, totaled \$3 billion, a 1.9 percent increase/decrease.

FAA proposed repealing the Department of Transportation's authority to set the rates and the requirement that Postal Service file international mail contracts in advance. The Postal Service has long advocated these changes to provide more direct control over its transportation costs.

The Air Carriage of International Mail Act was signed into law October 13, allowing the Postal Service to negotiate directly with airlines for international transportation. This change will result in improved service by promoting competition among carriers. It will also help save as much as \$50 million.

HIGHWAY AND OTHER TRANSPORTATION

The Postal Service spent approximately \$3.5 billion on highway transportation, an increase of 11.1 percent. The increase, a result of rising fuel cost, was partially offset by an overall reduction in miles driven. About 7.7 million fewer miles of highway transportation were contracted this year.

Rail transportation costs were \$117.7 million, a 7 percent decrease. The cost of transporting mail by water, to domestic offshore and inland destinations, was \$29.4 million, which was virtually unchanged. The cost of transporting mail by surface (ocean) decreased from \$6.1 million to \$0.5 million with the elimination of the Global Economy product in the May 2007 price change. This shifted most international mail from ocean to air transportation.

TRANSPORTATION SYSTEMS SUPPORT

The Transportation Optimization Planning and Scheduling (TOPS) system allows managers to perform long-range and week-to-week optimization for domestic, military, and international mail on contracted or postal transportation. The latest enhancement supports total air and surface transportation planning, such as the generation of non-stop direct international flights to streamline service and reduce total transportation time. TOPS has been designed to determine mail volume based on historical data and trends, and to allocate anticipated volumes to authorized suppliers based on cost and performance.

TERMINAL DUES, TRANSIT CHARGES, AND OTHER INTERNATIONAL EXPENSES

Under the Acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the

right to collect payment from the originating post to compensate for costs incurred to deliver that mail. These charges are called terminal dues for letter mail and inward land rates for parcels. Express Mail International items also incur processing and delivery charges from foreign posts or commercial delivery companies. Additionally, the UPU provides for transit charges for mail exchanged between administrations through a third country. Transit charges are paid by the originating country to the intermediary country for its forwarding of mail to the destination.

For the most part, settlements of terminal dues, inward land rates, and transit charges are contingent upon both the Postal Service and foreign posts accepting statistics on the mail exchanged. Final settlement and payment can occur a year or more after service is performed. The Postal Service accrues an estimate of these expenses based on available weight and piece data by country. This year the Postal Service incurred \$606 million in terminal dues, Express Mail, transit charges, and other international expenses unrelated to the transportation of mail.

Postal-Owned Transportation

The postal-owned fleet is predominantly used for delivery. In addition to providing delivery and processing support, postal vehicles are used for law enforcement, maintenance support, mobile Post Offices, and other functions. A contract awarded this year will provide an additional 1,350 left-hand drive vehicles to be used for city delivery routes not requiring right-hand drive. Existing vehicles used on those city assignments will be redeployed to selected rural routes, a change that will save an estimated \$1.3 million.

Postal Vehicle Inventory

Vehicle Type	End of Year
Delivery and Collection (1/2–2 ton)	197,898
Mail Transport (Tractors and Trailers)	6,455
Administrative and Other	5,906
Service (Maintenance)	5,272
Inspection Service and Law Enforcement	3,288
Mail Transport (3–11 ton)	2,228

Vehicle Operating Data

Operating Data	End of Year
Miles traveled	1,164,877,412
Average miles per gallon	10.30
Cost per vehicle	\$5,950
Cost per mile	\$0.32

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Mail Transport Equipment

Mail transport equipment (MTE) is the term given to sacks, trays, pallets, and wheeled containers that contain mail as it moves within or between facilities. The Mail Transport Equipment Service Center (MTEC) is an integrated network of 23 facilities for managing the MTE inventory, overseeing repair, storage, and distribution to internal and external customers. MTEC processes over 70,000 orders annually, serving 2,300 postal sites and large-volume mailers. In 2008, the Postal Service closed the leased warehouses that had been used to augment the MTEC, achieving a savings of \$5.4 million.

Multiple efforts are underway to improve MTE — improving its performance and durability while reducing cost and any negative environmental impact. There is an ongoing effort to standardize MTE inventory. Instead of sending empty flat tubs to the MTEC for redistribution, plants will recycle them within their facility to reduce re-handling, a change expected to save up to \$12 million annually. Use of a new lighter weight plastic pallet will further reduce cost. A “pallet round-up” program helped recover 57,000 pallets, for a savings of \$1.1 million. A “closed-loop” pallet inventory system is now in development, along with a new Web ordering system to be tested in 2009.

Facilities

The Postal Service oversees 34,175 properties nationwide, totaling more than 325.5 million square feet. In 2008, approval for facility projects over \$25 million rests with the Board of Governors. Design and construction of major processing plants are managed at Headquarters. Approval for projects under \$25 million is established by the Postmaster General following review by the Postal Service’s Capital Investment Committee. Most of the Postal Service Facilities program work — planning, leasing, purchasing, designing, and construction — is performed by its field offices.

REAL ESTATE INVENTORY

Inventory	End of Year
Total owned facilities	8,546
Total owned interior square feet	219,575,108
Total owned land in square feet	912,229,651
Total leased facilities	25,272
Total leased interior square feet	103,210,608
Total GSA/other government facilities	357
Total GSA/other government interior square feet	2,781,409

REALTY ASSET MANAGEMENT

Realty Asset Management manages the disposition of real property that has been declared excess to operational requirements. Realty Asset managers generate revenue by selling surplus property and

leasing, or subleasing, excess space. In 2008, the Postal Service recognized \$71.2 million in gains from sale of postal-owned buildings and land.

Projects	Completed in 2008	Ongoing
New construction, major renovations, and expansions less than \$25 million	29	316
New construction, major renovations, and expansions greater than \$25 million	2	8
Building purchases	23	99
New lease construction	9	181
Other lease actions (alternate quarters, new leases, and lease renewals)	4,491	4,049
Expense repair and alteration projects	3,471	2,178
Capital repair and alteration projects	5,170	22,211

Delivery and Pickup

Delivery is the Postal Service’s largest operations function, accounting for approximately 45 percent of salary and benefit expenses. Despite an increase of 1.2 million delivery points, there were 9.5 million fewer delivery workhours due to effective growth management, increased use of automation, standardization of best practices, improved productivities, and complement controls.

GROWTH MANAGEMENT

The Growth Management Tool helps standardize planning for the addition of new delivery points. New growth was predominantly served through lower-cost means of delivery. Walking and “park-and-loop” delivery points declined, while curblines, cluster boxes, and centralized deliveries increased. Growth in lower-cost Rural delivery accounted for more than one-half of all new delivery points. The table below shows the number and growth of delivery points by type at the close of 2008.

Delivery Points by Type of Delivery

Type of Delivery	End of Year	Change from FY07
City	87,285,380	+402,904
Rural	39,092,100	+709,134
Post Office box service	20,226,485	+42,032
Highway Contract Route	2,588,321	+45,694
Total	149,192,286	1,199,764

DELIVERY PRODUCTIVITY IMPROVEMENT

Improved office and street delivery productivities are keys to increasing delivery efficiency. Using automated mail sorting equipment to prepare mail for delivery improves office productivity.

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Street productivity is improved by more efficient lines of travel and modes of delivery.

Delivery point sequence (DPS) letters are sequenced by automated equipment earlier in the distribution process, and presented to carriers ready for delivery. By eliminating manual sorting of letters, DPS reduces costs, improves accuracy and speed of delivery, and contributes to improved customer satisfaction. More than 99 percent of all City delivery routes and 86.5



percent of all Rural routes receive DPS. On average, these routes receive 87.6 percent of their letters in DPS. The goal is to raise the DPS percentage to 95 percent by 2010. Automated flats sequencing began late this year at the Dulles, VA, processing and distribution center. The flats sequencing operations expanded to 10 delivery units with 263 routes by the end of 2008.

Delivery office and street productivities continue to achieve unprecedented results. The AM Standard Operating Procedures (AMSOP) program helps offices comply with standard management practices. Data show significant performance gains in offices that pass AMSOP certification audits. To date, 70 percent of target delivery offices are certified. To ensure the successful implementation of FSS, certification is now required in the delivery units that will receive sequenced flats.

Aligning staffing with workload and effective use of the City Delivery Pivoting Opportunity Model helped capture significant gains in city delivery efficiency. Organization-wide focus also helped increase deliveries per hour by 4.1 percent to 62.96.

The Carrier Optimal Routing (COR) is a computer modeling program to design optimal routes and more efficient lines of travel. Benefits include reduced workhours and vehicle costs, improved carrier safety (more compact, contiguous routes that minimize unnecessary travel), and accurate route maps that are provided by COR adjustments. Carrier Optimal Routing continues to focus on data preparation for FSS zones. Over 56 percent of zones were completed, and the route adjustment process is underway.

In City carrier operations, declines in mail volume, improved productivities, and increases in possible deliveries drive the need for route adjustments. By adjusting or consolidating routes, the Postal Service was able to absorb delivery point growth without significant increases in the number of routes. As a result, the number of deliveries per route increased to more than 535.7 from 530.3.

Rural and Highway Contract Route (HCR) delivery is less costly than City delivery service. Although growth remains strong in Rural routes, the latest Rural count in Spring reduced more than 116,000 workhours per week due to dramatic volume declines. The table below shows the number and change in City, Rural, and HCR routes.

Delivery Routes by Type

	End of Year	Change from FY07
City	161,648	-1,831
Rural	76,575	+185
Highway Contract Route	10,674	-39
Total	248,897	-1,685

CARRIER PICKUP

Customers can submit a free Package Pickup request online at *usps.com* to have prepaid Express Mail, Priority Mail, International Mail, and Merchandise Return Service packages picked up the next delivery day as part of the carrier's normal route. This year, the Parcel Return Service was added. Customers can enjoy the convenience of pre-printed, pre-paid labels and the ease of scheduling a free pickup. This convenient service grew over 20 percent in volume as more customers used Click-N-Ship and PC postage.

Resources and Support

Supply Management

The Postal Service attributed over \$870 million in cost benefits to supply chain management activities during 2008. These benefits include cost savings, cost avoidance, and revenue generation activities. Efforts focused on delivering these benefits by working collaboratively with business partners to optimize asset management, standardizing and streamlining processes, supporting sustainability, and enhancing supplier relationships and diversity.

SIGNIFICANT CONTRACTS

The terminal handling services re-competition resulted in awards to nine suppliers with a total value of over \$580 million. By using a new system that manages electronic solicitations and technical evaluations, and combinatorial pricing to optimize the network, the Postal Service will achieve a savings of \$70 million over six years. These awards increased direct spend to small businesses.

A contract was awarded to replace the existing Advanced Facer Cancellor System (AFCS) with state-of-the-art technology, which will eliminate issues involving AFCS retirement over the next 10 years. Through aggressive requirements analysis and system evaluation, the Postal Service was able to reduce costs by more than \$10 million.

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Ten contracts, valued at over \$260 million, were awarded for new and/or expanded facilities to support deployment of the Flat Sequencing System.

The Postal Service awarded contracts under the GSA SmartPay 2[®] program for national credit card services covering fleet, travel and purchase card programs for up to 10 years. The contracts are effective November 30, 2008. GSA SmartPay 2[®] provides numerous benefits, including enhanced services, improved systems and data security, and an improved ability to capture and analyze data using bank and/or card issuer electronic reporting systems. Managing this effort also improved the card program's rebate structure.

OPTIMIZE ASSET MANAGEMENT

The Postal Service awarded a pilot contract for a commercial off-the-shelf Enterprise Resource Planning solution. The pilot provides supply chain planning for retail packaging products and inventory management, vehicle service management, and vehicle spare parts fulfillment. Full system development and deployment is scheduled by 2010.

In 2008, the Strategic Stocking Location (SSL) network became fully operational. The fifteen facility SSL network focuses on inventory consolidation and cost reduction for high-value, critical spare parts. These parts are essential to ensure rapid repair response and maintenance of mail processing equipment.

STANDARDIZE, STREAMLINE AND AUTOMATE PROCESSES

This year the Postal Service completed its implementation of its Supplier Order Management System (SOMS) as part of its effort to reduce unnecessary paperwork and use technology to streamline processes. SOMS provides an automated, paperless, Web-based invoicing and payment system for vehicle parts and services. In the first two months of the system's operation, the two participating suppliers generated 2,800 electronic invoices.

The Air Tracking System was implemented to support peak season air transportation management. The system provides prompt and accurate supplier payments, improved control of aircraft and container mail volume data, paperless reconciliation of fuel usage, and improved supplier communications. The system increased accounting accuracy for jet fuel usage, and helped the Postal Service avoid potential overtime charges for ground handling services.

FOCUS ON SUSTAINABILITY

The Postal Service expanded its focus on sustainability by developing a Green Purchasing Plan, revising the Supplying Principles and Practices to support green purchasing, and by adding a *Supplier Sustainability Excellence* category to its supplier performance awards. It also incorporated green metrics as part of its supply

chain relationship management system, and added sustainability requirements to over 90 existing commodity sourcing strategy plans.

A contract was awarded to a small business for refurbishing outdoor mail collection equipment. The supplier uses a proprietary environmentally responsible process for removing paint and decals from outdoor mail collection equipment. The cost avoidance analysis projects approximately \$60 million over the full 10-year contract period.

In 2008, the Postal Service purchased 2 million upgraded corrugated fiberboard MM trays, which include a new water-resistant paper and a self-locking design for longer service life. These trays are 100 percent recyclable and represent an annual cost savings of \$2.6 million when compared with the cost of plastic trays.

DEVELOP, RETAIN, AND EMPOWER SUPPLY MANAGEMENT EMPLOYEES

The Postal Service implemented new programs to overcome supply management's internal recruitment and retention challenges, and to support workforce professional development. These programs include a new Supply Management Competency Model and an associated professional development process. The Supply Chain Academy debuted in June and offers online access to over 300 courses and a best-in-class supply chain library. Supply Management also delivered improved Web-based training covering the Supplying Principles & Practices, an orientation to Supply Management, Contracting Officer's Representative training, and updated Purchase Card training. In addition, the organization implemented the Supply Management Intern Program and created an internal Rotational Assignment Program.

IMPROVE SUPPLIER RELATIONSHIPS

To continue to improve the performance of key suppliers, the Postal Service expanded use of its Supply Chain Relationship Management System (SCRMS) in 2008. SCRMS is an automated system that promotes collaboration with partners and suppliers. Development and testing was successfully completed and implementation started on the supplier performance management scorecard module, with its set of goals, metrics, and a 7-step workflow that includes a series of concurrences among managers, internal partners, and suppliers.

SUPPLIER DIVERSITY

The Postal Service continues to act on longstanding commitments to supplier diversity. Annualized contract values with small businesses exceeded \$3.1 billion; contracts with minority-owned businesses were nearly \$319 million; and, contracts with women-owned businesses reached \$681 million. Delivering against the Supplier Diversity Corporate Plan (2007- 2010), the Postal Service continued with the implementation of new features in SCRMS. A Subcontract

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Management reporting module for suppliers was introduced, with training made available to over 500 professional buyers and suppliers, including a targeted introduction to members of the Postal Supplier council.

In recognition of efforts to establish and maintain a strong competitive supplier base that reflects the diversity of the supplier community, *DiversityBusiness.com* again named the Postal Service as the *Top Organization for Multicultural Business Opportunities*. It is the first time an organization has received this honor for three consecutive years and demonstrates the Postal Service's commitment to minority-owned and women-owned business through the volume, consistency, and quality of business opportunities it offers. The Supplier Diversity program has also been recognized by several industry trade journals including *SAVOY Professional* and *DiversityPlus*, for its commitment to providing access to business opportunities.

Information Technology

ADVANCED COMPUTING ENVIRONMENT / UPGRADING THE INFRASTRUCTURE

The Advanced Computing Environment (ACE) is a comprehensive lifecycle management system of standardized hardware and software that allows for more efficient, centralized user support. Second generation ACE II upgrades are gradually replacing older ACE units with hardware that offers more memory and improved logon times, and can be restored by the user if data or programs become impaired. Deployment began in 2007 and will continue for two years. At the end of 2008, 92,000 ACE II workstations have been installed.

INFORMATION SECURITY

The Postal Service has implemented significant controls over its computer equipment and data. Policies have been established that place limitations on the use of non-postal devices to access the postal intranet or to store Postal Service information. Assignment of laptop computers to employees has been limited strictly to business need, and the storage of sensitive information greatly restricted. New accountability procedures were also put in place this year. In addition, the Postal Service has implemented full disk encryption for all laptops, with completion expected in the spring of 2009.

IT NETWORK UPGRADES

Upgrades to the postal IT network are more than 99 percent complete and almost every postal location now has dedicated high speed access. Dial-up is still used for mobile connectivity and as a contingency solution; however, its usage is being greatly reduced. Over 5,000 postal locations had network upgrades in 2008.

The personal digital assistant (PDA) system continues to provide remote communications capability to employees, including Continuity of Operations team members, even when postal facilities are without

power or shut down. Starting in 2008, all 8,497 users nationwide were upgraded to an updated PDA device that dramatically cuts communication costs by leveraging pooled cell phone minutes.

The Enterprise Data Warehouse (EDW) is the integrated source of information for both standard reporting as well as business intelligence reporting. It contains data from more than 135 separate source systems and provides cross-functional access to a wide range of data, including retail, financial, logistics, facilities, and human resources. The EDW serves over 49,000 distinct users, who generate more than 8.7 million reports annually. As the EDW continues to evolve, the major focus will be on ensuring broad availability, data integrity, and improved service performance for users.

Security and Emergency Preparedness

SECURITY

Postal Inspectors conducted more than 588 security assessments and reviews at postal and contractor facilities in 2008. The reviews prevent incidents and mitigate risks to employees, customers, and postal assets. Assessments ranged from reviewing compliance with procedures on building and vehicle security, accountable mail, hiring, and enforcement of employee identification requirements, to more comprehensive security reviews which include detailed facility risk assessments. In addition, 30,339 facility security surveys were completed through the Postal Inspection Service's security control officer program.

Postal Inspectors also conducted investigations of mail service and security. Known as Observations of Mail Condition (OMC) reviews, these investigations were performed at 59 plants and customer service facilities, primarily during the Holiday mailing season. Postal Inspection Service personnel conducted more than 10,000 Aviation Mail Security and approximately 6,600 Hazardous Materials Program Reviews during 2008. The reviews measured facility and employee compliance.

EMERGENCY PREPAREDNESS

Comprehensive emergency management plans have been developed and deployed to meet the requirements addressed within the National Incident Management System, the National Response Framework and Homeland Security Presidential Directives. National Preparedness provides an "all hazards" approach — for prevention, preparedness, response, and recovery protective measures related to domestic terrorist attacks, major disasters and other emergencies.

The Postal Service participated in more than 430 local and national emergency response tests to assess integration with other emergency response providers and to test local preparedness and continuity of operations plans. Preparedness activities are designed to improve coordination among Postal Service functional areas, to minimize duplication of planning efforts, and to establish

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Postal Inspectors Brook Fuller and Gregory McGahey worked with inspectors from around the country and other law enforcement to protect Postal Service assets and employees during the Democratic and Republican national conventions.

a standardized emergency management process within the Postal Service.

During 2008, 1,733 emergency incidents were reported due to hurricanes, floods, and other events. National Preparedness coordinated the deployment of support equipment and supplies, and assisted with damage assessments and recovery, including hazardous and toxic material removal.

Financial Management

SARBANES-OXLEY PREPARATION

As required by the Postal Act of 2006, the Postal Service must comply with Section 404 of the Sarbanes-Oxley Act (SOX) by the end of fiscal year 2010. This requires management to report on Internal Controls over Financial Reporting (ICFR) annually starting with fiscal year 2010, and to obtain an opinion from the Board of Governors' external audit firm regarding the effectiveness of ICFR.

The Postal Service must comply with other sections of SOX because they are closely associated with Section 404. Section 302 requires CEO and CFO certification that the financial statements and other financial information included in quarterly reports fairly present in all material respects the financial condition, results of operations, and cash flows of the Postal Service, and that they are responsible for establishing and maintaining disclosure controls and procedures, as well as Internal Controls for Financial Reporting.

To achieve its goal of compliance by 2010, the Postal Service is following best practices and guidance published by the Public Company Accounting Oversight Board (PCAOB), and the Securities and Exchange Commission (SEC). Accordingly, the Postal Service has established a top-down, risk-based approach to identifying, assessing and reporting internal controls impacting financial reporting. Further, the Postal Service will use the framework

established by the Committee of Sponsoring Organizations, which is approved by the SEC and PCAOB, to assess the components of Postal Service internal control including Control Environment, Risk, Control Activities, Information and Communication, and Monitoring activities within the Postal Service.

In 2008, the Postal Service made substantial progress in its SOX compliance program. Documentation of nearly all of the Postal Service's in-scope financial business processes as well as its information technology systems was finalized. Currently, key internal controls over financial reporting are being evaluated, and remediation of design gaps in its system of internal controls and with implementation of business process improvements continue. SOX readiness testing of internal controls is planned to begin in 2009. The Postal Service is on track to comply with SOX requirements by the end of 2010.

FINANCIAL REPORTING

As required, in each quarter of 2008, the Postal Service submitted to the Postal Regulatory Commission (PRC) the SEC-like reports (10-Q and 10-K), and the certification of that financial information as is required by Section 302 of the Sarbanes-Oxley Act.

Sustainability

The Postal Service seeks every opportunity to reduce negative environmental impacts and to influence its customers, suppliers, and partners to adopt sustainable practices. With over 700,000 employees, 34,175 facilities, and 220,000 vehicles, the Postal Service has an impact in every American community. Its goal is to make sure that impact is a positive one.

The Postal Service has a very strong environmental track record. Since 1995 it has been honored with 39 White House Closing the Circle Awards. The Postal Service also won the Environmental Protection Agency's WasteWise Partner of the Year Award, the program's highest honor, for the ninth year in a row. The Postal Service's sustainability effort is focused on two main areas: accelerating conservation, especially in energy and fuel use, and expanding environmentally-responsible business practices, both internally and through partnerships.

A new office of Sustainability was created in 2008 to coordinate the various activities across different business units and bring them into a corporate strategic sustainability plan with long-term goals.

To help touch a new generation of postal customers and expand use of sustainable practices among existing customers, the Postal Service produced an *Environmailism* campaign this year featuring an extensive guide on greener mail practices. The campaign itself could qualify for many environmental certifications, including Forest Stewardship Council (FSC) certification, Green-e, Carbon Neutral, and Process Chlorine Free.

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ENERGY MANAGEMENT

Because of its size, the Postal Service has the opportunity and responsibility to lead the way in energy management. Postal Service energy expenses amounted to \$2.9 billion in 2008. Transportation consumes 78 percent with the balance spent on utilities. Energy initiatives focused on developing a common energy strategy for the organization and improving data quality. Transparency in overall consumption and cost will lead to significant improvements in energy management. Wise investments in energy efficient equipment today will repay their debt continuously over time.

To guide the organization in achieving its energy goals, a National Energy Management Plan has been developed to document the efforts of the business units to reduce energy consumption and costs. This plan includes high-level objectives for facility energy management, fleet management, fuel strategy, utilities management and energy conservation and awareness in the Postal Service.

The 500 largest buildings in the Postal Service's inventory account for over half of its energy consumption.



In 2008, the Utility Management System (UMS) pilot program was established to create a central utility bill verification and payment system that also streamlines and captures energy consumption and cost

data for electricity, natural gas, steam, propane, and fuel oil. This system provides detailed utility consumption and cost profiles, bill payment, auditing, rate optimization, tax recoupment, and reporting. Based on the success of this initial pilot, the system is being expanded in fiscal year 2009 to include the next top 1,500 facilities, which should result in bill management and energy consumption information for 70-80 percent of the total energy consumption.

Getting everyone in the organization actively involved in energy management is key to meeting reduction objectives. The Postal Service has initiated a year-long energy conservation awareness campaign centered around the theme "Do your part; be energy smart!" This campaign encourages employees to save energy at work, at home, and on the road, and reinforces the message that all employees are responsible for reducing energy use.

FACILITY ENERGY

Energy costs for utilities were \$651 million, a 6 percent increase attributable to the rapidly rising cost of utilities this year. To counteract these increases and control energy costs, a multi-point effort is being conducted, including energy audits and

implementation of opportunities that provide a positive return on investment. Opportunities include capital improvements of major building systems like HVAC and lighting, and many low-cost and no-cost opportunities, such as resetting thermostats and repairing existing systems.

GREEN BUILDINGS

The Postal Service has been designing and building "green" buildings for more than 20 years, and continues to adhere to the basic philosophy of working to balance the objectives of people, planet, and profit. The latest update of the national building design standards includes a new "green" lobby design that uses a number of low-impact environmental materials. The Postal Service is also working to minimize the impact its buildings have on the environment. Metrics are being developed to measure and certify existing buildings that meet certain sustainable criteria. These criteria include energy, water, indoor air quality, and recycling. The objective is to finalize this measurement system and begin evaluating buildings in late fiscal year 2009.

EQUIPMENT DESIGN

The Postal Service has incorporated energy efficient requirements into mail processing equipment designs with the objective of meeting operational needs with the least amount of energy. The Flats Sequencing System is the first major purchase in which these new requirements were used. Existing equipment is being evaluated and upgraded in order to minimize energy consumption when in standby mode and not processing mail. The APPS and DBCS equipment are both being currently tested with modifications to reduce their standby energy consumption.

INFORMATION TECHNOLOGY

The more than 200,000 personal computers and thousands of numerous peripherals allow the Postal Service to perform its work very efficiently. Changing the default setting of most printers to double-sided printing has greatly reduced paper and energy consumption. In addition, power management software on computers has reduced overall energy use of this equipment.

FUEL REDUCTION

By optimizing its postal-owned fleet and seeking out the best-value available in contract transportation, the Postal Service is reducing miles driven to better manage fuel use. These efforts helped the organization absorb more than \$700 million in fuel price increases this year. The Postal Service carefully scrutinizes key performance indicators for fuel consumption in air and ground transportation. The Surface Visibility program ensures all available mail containers are on the correct trucks. Advanced software applications and other technology are able to map more fuel-efficient routes and monitor truck utilization to ensure optimal assignment of ground volume, which reduces emissions from air transportation.

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ALTERNATIVE FUEL VEHICLE PROGRAM

The Postal Service operates a large alternative fuel-capable fleet, including more than 37,000 E-85 flex-fuel vehicles that can operate on gasoline, E-85, or any mixture of the two fuels. In 2008, an additional 1,352 E-85 vehicles were acquired. In addition, the Postal Service has embarked on a variety of initiatives to further lessen its dependence on fossil fuels. Specifically, an agreement was signed with General Motors to test their 4th generation hydrogen fuel cell Chevrolet Equinox with funding support from the U.S. Department of Energy. A hydrogen fuel cell Equinox has been used to deliver mail in Irvine, CA, since July 2008 and another Equinox will be deployed in the Washington, DC, area in early 2009.

The Postal Service is currently working with other enterprises on the testing and evaluation of electric and hybrid vehicle technologies that could be well suited to the postal fleet. Moreover, tests continue on medium-duty hybrid electric step vans. A delivery diesel vehicle was converted by a supplier that shows very promising fuel-economy improvement. Also in 2008, the Postal Service purchased several

vehicles. Contracts include provisions to capture runoff and use environmentally-preferable products.

With ever increasing pressures for clean drinking water, the Postal Service is working to minimize water consumption. All new construction and major renovations will utilize low-flow, high efficiency plumbing fixtures. In addition, practical water saving opportunities identified during audits will be evaluated for implementation. In order to better understand water use patterns, the organization is now capturing water consumption data for 50 of the largest buildings. This information will help identify water saving opportunities at other buildings.

ASBESTOS MANAGEMENT

The National Asbestos Management Program is being revitalized by continually updating policies and procedures. Over 31,000 asbestos surveys have been located, scanned, and added to an Environmental Toolkit used by different departments. Approximately 2,600 more surveys are to be entered into the system.



The Postal Service is testing the new Chevrolet Equinox fuel cell electric vehicle for mail delivery. With the world's largest civilian transportation fleet, the Postal Service leads the federal government in the number of alternate fuel vehicles it operates.

T-3 three-wheeled electric delivery vehicles that are being used to deliver mail in areas of Florida, California, Texas, and Arizona.

WATER MANAGEMENT

The Water Management program was formed to meet environmental standards for pollutant discharges, storm water runoff, and safe drinking water. It also supports efforts to minimize water usage. An overall water management strategy has been developed to ensure compliance with the requirements of the Clean Water and Safe Drinking Water Acts. In addition, Vehicle Maintenance Facilities will continue its policy of "zero pollutants" in the discharge from washing



Chapter 5: Performance Trends and 2009 Goals

Since the implementation of the Government Performance and Results Act of 1993 (GPRA), the Postal Service has balanced three fundamental criteria to evaluate overall performance: service quality, financial viability, and the provision of a safe workplace where employees can contribute to the success of the organization. These reflect the needs of our different stakeholders, and are also used internally to align individual and unit performance accountability with corporate goals. There are no major changes to the corporate goals for fiscal year 2008 or 2009.

Improve Service

On-time delivery is the critical first step in meeting and satisfying postal customer needs. The Postal Service continued the trend of steadily improving performance, achieving its highest score ever for the delivery of single-piece First-Class Mail.

First-Class Mail On-Time Performance

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Overnight	95%	95%	95%	96%	96.0%	96.5%	96.5%
2-Day	91%	91%	90%	92%	92.8%	94.1%	94.0%
3-Day	89%	87%	88%	90%	90.5%	91.7%	92.7%

Source: External First-Class Measurement System, IBM Global Business Services

Note: The calculation of Plan and Actual data differ slightly. Plan is used internally by the Postal Service for its pay-for-performance system, known as the National Performance Assessment (NPA). The NPA Plan includes a small exclusionary period for 2-day and 3-day and also includes the on-time performance of International First-Class Mail. Actual scores do not include the exclusionary period and do not include International First-Class Mail.

Domestic First-Class Mail service performance is measured by the External First-Class Measurement system (EXFC), which has been in use since 1990. It measures the time from the collection box to the mailbox. The system is managed by an independent third party using test mailpieces sent to a nationwide panel of receivers. Through 2008, EXFC was not a system-wide measurement of all First-Class Mail. It continuously tested 463 ZIP Code areas selected for geographic and volume density. These areas represent 90 percent of originating First-Class Mail volume and 80 percent of destinating mail volume.

In fiscal year 2008, work was done to expand EXFC to encompass nearly all 3-digit ZIP Codes. This expansion, which takes effect in fiscal year 2009, makes EXFC results more comprehensive. To provide further detail in 2009, service standards to and from the territories of Guam, Puerto Rico, the Virgin Islands, and the states of Hawaii and Alaska were updated to reflect limitations on available transportation and the extended time and distances required to transport mail to and from these locations. Local service performance scores may be adjusted for extraordinary events, such as natural disasters. However, such adjustments are not made for national performance measurement.

The Postal Act of 2006 significantly expanded the requirements for service performance reporting. New standards have been developed for all market dominant classes of mail. The Postal Service will begin reporting on performance in 2009, and these results will establish the baseline for future performance improvement. We anticipate the corporate service-related goals to change in 2010 to reflect this additional information.

These new service reporting requirements created the demand for new ways to measure performance. Using the traditional EXFC sampling system alone would be extremely complex and costly. With the development and introduction of Intelligent Mail[®], this expansion of performance measurement is becoming a reality. Intelligent Mail barcodes contain up to three times as much information as older barcodes. The additional information carried by each mailpiece, combined with expanded automated scanning capability, will allow for service measurement as mail is processed from origin to destination. This cost-effective and more robust approach will also help mailers and postal employees better identify and resolve root-cause problems in addressing, mail preparation, processing, transportation, and delivery. Related systems, which verify when the Postal Service actually receives the mail, will improve accountability for contractors who print, prepare, and transport mail to the Postal Service.

Timely and reliable delivery is the foundation for customer satisfaction and revenue generation. The Postal Service will continue the evolution of other outreach systems, such as the Customer Satisfaction Measurement survey, to improve the total customer experience.

Maintain Financial Viability

The Postal Service is a self-sufficient agency. The cost of postal operations, including the costs to extend service to an additional 1.2 million new deliveries in 2008, must be financed by the revenue generated from the sale of postal products and services. Achieving profitability — the difference between total revenues and total postal costs — is essential to the Postal Service's continued ability to provide reliable, affordable, universal service.

GENERATE REVENUE

The economic environment made 2008 one of the most difficult years ever faced by the Postal Service, and this challenge will increase in 2009. The devastation in the financial services industry — one of the Postal Service's largest commercial customer segments — significantly reduced volume and revenue for all classes of mail. Financial pressure on households depressed retail sales, which in turn reduced direct mail from retailers. Mail volume decreased 9.5 billion pieces in 2008. Volume and revenue continue to be eroded by online options for billing, payments, business communication and personal correspondence, and advertising. The Postal Service is limited by law in its ability to seek alternative sources of revenue.

Chapter 5 Performance Trends and 2009 Goals

Financial Performance

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Revenue (\$ billion)	\$69.0	\$70.0	\$72.6	\$74.8	\$78.2	\$74.9	\$76.2 (Projected)
Revenue to Plan	100.1%	102.4%	100.7%	99.6%	100%	95.9%	Achieve Plan
Net Income (Loss) (\$ billion)	\$3.1	\$1.4	\$0.9	(\$5.1)	(\$0.6)	(\$2.8)	NA

Source: Postal Service Annual Report, available at usps.com

The Postal Service's financial position was also affected by the requirements of the Postal Act of 2006 to pre-fund future retiree health benefits. In 2008, this amounted to a payment of \$5.6 billion. The Postal Service must also make a separate payment for the annual health benefit premiums for current retirees. The net income from operations was positive before the payment to the health benefit trust fund for future benefits.

Inflation-related expenses included \$562 million in cost-of-living adjustments for eligible bargaining unit employees and an additional \$525 million in fuel and energy-related price increases.

The economy is not expected to improve in 2009, and volume is expected to decline another 8 billion pieces. A \$5.6 billion payment into the Postal Service Retiree Health Benefit Fund is also required in 2009. In this environment, a net loss is expected.

Net Income was a new goal in 2008, added to reflect the elimination of the break-even financial requirement included in the Postal Act of 2006. However, this is impractical, given prefunding requirements of health benefits and was removed as a corporate goal in 2009. This change will not reduce efforts to increase revenue and improve the financial viability of the Postal Service.

The Annual Report includes the management discussion and analysis of the Postal Service's financial situation, as well as the report of the independent auditor. Detailed financial reports are available at usps.com/financials. The reliability of financial reports depends on the integrity of the systems that support them. The Postal Service is on track to comply with the requirements of Sarbanes-Oxley (SOX) legislation by 2010, and, in 2008 began to submit the SEC-like 10Q reports and certification to the Postal Regulatory Commission.

INCREASE EFFICIENCY

The Postal Service cut more than \$2 billion in costs in 2008, led by a reduction of 50 million workhours from the previous

year — labor costs comprise nearly 80 percent of Postal Service expenses. Productivity measures, such as deliveries per workhour, have increased. Total Factor Productivity (TFP), which compares postal outputs such as weighted mail volume and delivery network growth with the resources such as capital, labor, and materials used to produce the output, provides a more complete assessment of productivity trends. It is similar to the Multi-Factor Productivity index used by the U.S. Bureau of Labor Statistics to measure the growth of productivity in the economy.

Total Factor Productivity

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Improvement Over Prior Year	2.4%	1.1%	0.4%	1.0%	1.0%	(0.5%)	Increase over end of fiscal year 2008

Source: Postal Service Financial Reporting and Analysis

TFP has increased consecutively over each of the last eight years, a cumulative improvement of 19.6 percent since 1985. In 2008, despite the reduction of 50 million workhours, TFP declined primarily due to volume declines so rapid and so large (4.5 percent) that it was impossible to adjust resources with sufficient speed to maintain positive TFP.

For 2009, the Postal Service has very aggressive cost reduction strategies, doubling the 50 million workhour savings achieved in the prior year to a goal of 100 million workhours — or the equivalent of 50,000 full-time employees. This effort is aided by continuous investments in automation (Intelligent Mail® and the Flats Sequencing System) and process improvements (Lean Six Sigma), which have been critical to improving productivity and will continue to do so. However, a large percentage of postal operating costs are fixed, regardless of volume. Examples include a carrier's daily stop at every address and the expansion of the delivery network while planning for a continued volume decline of 8 billion pieces in 2009.

Improve Safety and Employee Satisfaction

Employees need a safe workplace where they can contribute to the success of the organization.

WORKPLACE SAFETY

Safety is tracked using methodology required by the U.S. Occupational Safety and Health Administration (OSHA). Safety performance has continuously improved.

Chapter 5 Performance Trends and 2009 Goals

Safety

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Illness and Injuries per 100 Full-Time Employees	6.6	5.7	5.6	5.5	5.5	5.4	0.1 percent better than end of 2008

Source: Postal Service Safety and Environmental Performance Management

Future Performance Measures

Vision 2013, the Postal Service's five-year strategic plan, available at usps.com/strategicplanning/vision2013, describes the Postal Service's approach for keeping its products and services relevant and viable for future generations by addressing the needs of a changing market. This document includes a number of initiatives to improve service, generate revenue, and engage employees. New measures will be developed and deployed at different levels of the organization, while existing measures will continue to be adapted to manage performance and achievement of these goals.

EMPLOYEE SATISFACTION

The Postal Service tracks employee attitudes using an index of six questions from its Voice of the Employee (VOE) survey, which is managed by an independent third party. Every employee has the opportunity to respond during the course of the year, and response rates are high — over 60 percent. The index measures employee perceptions of recognition, accountability, harassment and discrimination, organizational communication, and being treated with dignity and respect. The stability of the index is notable as the challenging business environment places enormous pressure on all employees.

Voice of the Employee Survey Index

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2008 Actual	2009 Plan
VOE Survey	62.1	63.7	63.4	63.5	63.6	63.7	0.1 Better than end of 2008

Source: Postal Service Human Resources

The VOE survey has been adapted to reflect industry best practices. While many of the questions are very similar to the previous study, the enhanced survey will enable a better assessment of efforts to effectively include all employees in achieving strategic objectives, especially the Postal Service's vision of creating a customer-focused culture.

In 2007 the Postal Service began to track the rate of formal Equal Employment Opportunity (EEO) complaints. The rate was 0.8 per 100 employees in 2007 and was unchanged in 2008.

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